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IN THE

**Supreme Court of the United States**

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October Term, 1968

No. 56

**LEAR, INCORPORATED,**

*Petitioner,*

*vs.*

**JOHN S. ADKINS,**

*Respondent.*

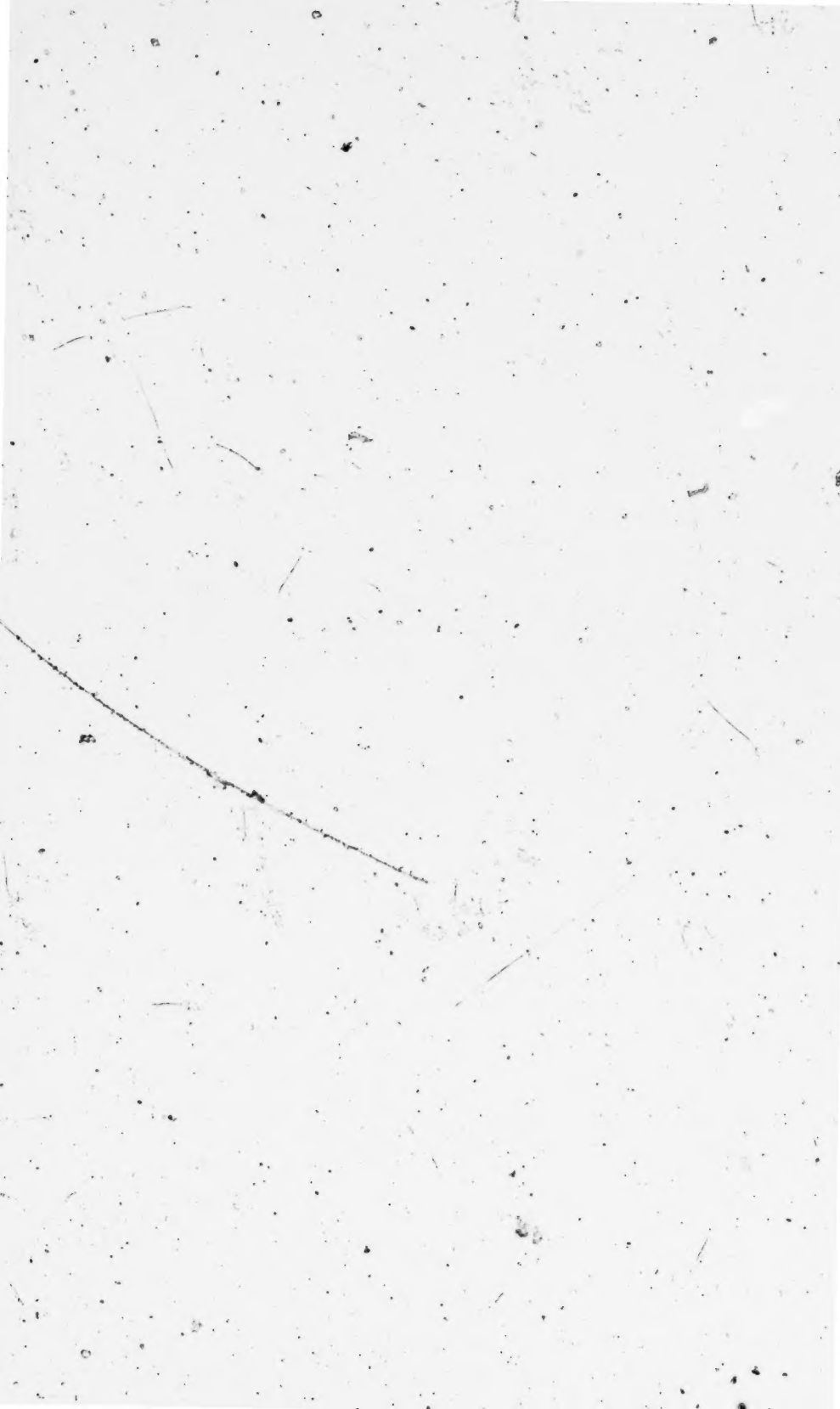
On Writ of Certiorari to the Supreme Court of California.

**BRIEF FOR RESPONDENT.**

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On Writ of Certiorari to the Supreme Court of California.

---

**BRIEF FOR RESPONDENT.**

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**Questions Presented.**

Separately, fully and fairly stated in terms of the record in this case, Lear raises not four but the following fourteen questions, some of which Lear first presented in its petition for a writ of certiorari, some of which Lear first presents herein, and some of which arise from the questions Lear presented as necessarily included subsidiary questions in order to decide fully the entire question. In restating the questions in its brief, Lear has rearranged the order in which the questions were originally presented and has combined different and unrelated questions. Consequently, we will herein separately restate the questions and reserve for full consideration (Point I, *infra*) the new order in which the questions are presented and show therein that no sub-

stantial Federal question was timely raised, as a result of which the writ of certiorari should be dismissed as improvidently granted.

1. Whether any substantial Federal question was properly raised in the California courts in order to confer jurisdiction on this Court under 28 USC §1257(3). (Point I, *infra*.)

2. Whether the California Supreme Court's construction of paragraphs 2(a) and 3(g) of the license agreement, holding that Lear cannot terminate the agreement while continuously using Adkins' invention in its gyros, violates either the patent laws or the anti-trust laws or constitutes a misuse of the patent which renders the license unenforceable. (Point IIA, *infra*.)

3. Whether an agreement to pay a royalty for the disclosure of an idea, discovery and invention which happens also to be the subject of a secret patent application and which is cancellable if no patent is issued, constitutes a retroactive misuse of the patent grant under either the patent laws or the anti-trust laws which renders the license unenforceable. (Point II B, *infra*.)

4. Whether, absent any misuse of the patent, the settled doctrine of licensee estoppel, which is necessary to give the patent grant substance and value, encourages licensing and the use of the patent system, and on which inventors rely, conflicts with the policy of either the patent laws or the anti-trust laws, thereby permitting a licensee to question validity. (Points III A, B, C & D, *infra*.)

5. Whether, if the doctrine of licensee estoppel does not violate either the patent laws or the anti-trust

laws, a licensee may nevertheless always repudiate and stand out from under the license agreement and then contest the validity of the patent in order to attempt to show a total failure of consideration. (Point III F, *infra*.)

6. Whether a licensee who bargains not for any particular claims of the application, but, rather, for the right to use the invention disclosed in the specifications of the application and then for issued claims which cover the invention may, under the agreement, assert that no claims could issue and challenge the "patentability" of the invention. (Point III E, *infra*.)

7. Whether the doctrine of licensee estoppel should be or is any different where the license is initially under a patent application and then shifts to a license under the claims of the issued patent when the licensee can always show that the issued claims do not cover the invention of the application and/or the invention of the license agreement. (Point III G, *infra*.)

8. If a licensee is not estopped to question the validity of his licensor's patent and the patent is held to be invalid, what is the proper cut-off date for accrued royalties. (Point IV, *infra*.)

9. Whether additional language inserted in the specifications is "new matter," and, if so, whether the inclusion of new matter without any proof of intent either to misrepresent or conceal, constitutes fraud on the Patent Office precluding recovery of royalties due under a license agreement where no claim is based on any alleged new matter. (Point V B, *infra*.)

10. Whether the California Supreme Court, after correctly stating the rule for construction of claims, incorrectly read any part of the cancelled method claims into the issued apparatus claims. (Point VI, C, *infra*.)

11. Whether the California Supreme Court, after properly stating the doctrine of file wrapper estoppel, correctly applied it to the facts in this case. (Point VI B, *infra*.)

12. Whether, where the jury finds that the patent is valid, this Court should reconsider every factual and legal issue relating to validity, or remand the case to the highest State court which has not squarely considered the issue of validity. (Point V A, *infra*.)

13. Whether; where the jury finds that the patent is infringed by the accused devices based on uncontradicted expert testimony, this Court should essay an independent determination of the documentary evidence and the testimony relating to mechanical functioning of the patented device, the prior art devices and the accused devices. (Point VI A, *infra*.)

14. Whether, if the agreement fails because the patent is invalid, or the agreement is otherwise unenforceable, this case must be remanded for a trial on the alternative second cause of action for misappropriation in breach of confidence, breach of implied-in-fact contract and unjust enrichment, which was dismissed as moot. (Point VII, *infra*.)

#### Introductory Statement.

This case is a suit for breach of contract brought by John S. Adkins ("Adkins"), an individual inventor, against Lear, Incorporated, a major corporation,\* which involves only one patented invention (used exclusively by Lear) and only one license agreement.

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\*According to Fortune's Directory of the 500 largest U.S. corporations, Lear-Siegler ranked 213 last year (up from 309 in 1966) on sales of \$402,303,000.00.



Adkins originally went to work for Lear on January 2, 1952 for a nominal salary far below that which his position and experience would normally command, in the hope that he could develop a more accurate and less costly gyroscope (hereinafter "gyro") bearing alignment structure and license it to Lear. Before joining Lear, Adkins and William P. Lear, on behalf of Lear, entered into a one-page letter agreement dated December 29, 1951, under which Adkins agreed to disclose to Lear all of his "ideas, discoveries and inventions" relating to gyros, and Lear agreed to pay to Adkins therefor a "mutually satisfactory royalty." This letter agreement, which is of extreme importance to the issue of licensee estoppel, is totally ignored by both Lear and the Government. The importance to Lear of having a more accurate and lower cost gyro cannot be overestimated. Both Adkins and Lear were well aware that the advent of the jet aircraft rendered obsolete the gyros which Lear and other members of the gyro industry were then producing and created an urgent industry-wide need for a more accurate, low-cost gyro, with the reward going to the company which could first manufacture such a gyro. Thus, Mr. Lear, who knew of Adkins' broad experience in the gyro field, gave him a free hand to attempt to create a more accurate, low-cost gyro, his reward to be the "mutually satisfactory royalty." After considerable experimentation and in mid-1952, Adkins successfully solved the problem which had long baffled the gyro industry by inventing a new apparatus for precise bearing alignment which resulted in a much more accurate gyro which was cheaper to manufacture. Adkins immediately disclosed his invention to Lear and Lear began using it in its gyro products, first in the 2156 gyro and then, approximately one

year later and in October of 1953, in its steel gyros. In February of 1954 Adkins filed a patent application on his invention, and on September 15, 1955 Adkins and Lear entered into the license agreement here in suit. The license agreement cancelled the letter agreement and required Lear to pay Adkins a royalty of  $1\frac{1}{4}\%$  if it used his invention. As will be seen (Point III, *infra*), although the agreement was couched in terms of a formal patent license agreement, conclusive validity of the patent played no part in the bargain.

It appears that the primary question involved in this case, and the only question on which the Government has filed an *amicus* Brief, is whether or not the settled doctrine of licensee estoppel is necessary to enforce the bargain of the parties and is vital to effectuate the policy of the patent clause and the purpose of the patent laws, or is aberrational in view of the policy of the anti-trust laws. Although both Lear and the Government step outside the record to show that Adkins' invention is used primarily by the military and that the public bears the burden of the royalty and will continue to do so, the countervailing considerations are ignored. To the extent that gyros using Adkins' invention are sold to the military, they are presumably sold pursuant to competitive bidding regulations, as well as the Renegotiation Act, which are designed to insure that only a fair price is paid by the military. Although great emphasis is placed on the substantial amount of money which Adkins will receive, neither Lear nor the Government is willing to recognize the many millions of dollars that the military is saving by having a gyro which costs substantially less to make, and even more important, the fact that the military is receiving a gyro

which, because it uses Adkins' invention, meets the accuracy requirements which are essential in gyros used in jet aircraft. Similarly, both Lear and the Government ignore the many hundreds of millions of dollars which Lear is receiving from sales of this gyro and the fact that its profit is far in excess of the  $1\frac{1}{4}\%$  it is required to pay to Adkins—a profit it would not have in the first place but for Adkins' invention.\*

Thus, the real questions presented by the licensee estoppel issue are as follows:

1. Is Adkins now to be told that the doctrine of estoppel to question validity, upon which he relied when he agreed to the cancellation of the letter agreement and entered into the license agreement, violates the anti-trust laws, and that Lear can now contest validity and perhaps deprive him of all royalties, when conclusive validity of the patent was then and is now irrelevant to the bargain?

2. If so, is Adkins now also to be told that twelve jurors who found his patent to be valid, and seven California Supreme Court justices who found his invention to be a "significant step forward," were wrong, and that one trial judge (who did not understand either Adkins' invention, the prior art devices or the steel gyros) (see Points V and VI, *infra*) was right?

3. If so, is Adkins now to be told that Lear may keep the accrued royalties which it has al-

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\*These facts alone may explain the statement in the Government's brief (fn. 9, p. 16) that "Lear is the leading competitor in the production of instruments of this type. The Department of Defense has advised us that Lear is the only source for procurement of certain of these gyros . . ."

ready collected from its customers and the profits which it has received from the sale of these gyros, and also to be told that Lear may continue to amass these profits without paying him the agreed royalty?\*

### Statement of the Material Facts.

On December 29, 1951 Adkins and William P. Lear for Lear, Incorporated, signed a simple one-page letter agreement\*\*<sup>1</sup> which provided that all of Adkins' "ideas, discoveries and inventions" relating to gyros would be Adkins' "property" which Adkins agreed to disclose to and license to Lear in exchange for a "mutually satisfactory royalty." Pursuant to that agreement, and on January 2, 1952,<sup>2</sup> Adkins began work, for a nominal salary of \$650.00 per month, which was below that normally paid to employees holding similar positions, and which Mr. Lear described as "coffee and cake money,"<sup>3</sup> at Lear's research and development facility in Santa Monica, California,<sup>4</sup> to develop a gyro which would be more accurate than those then being manufactured by Lear and which could be produced at a lower cost.<sup>5</sup> Thus, Adkins' real reward was to depend

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\*If the doctrine of licensee estoppel and/or the related issues (Nos. 1-7, *supra*) are in fact the only issues of concern in this Court, then all of the questions dealing with validity, infringement, the proper cut-off date for royalties if the patent is invalid, and the necessity for a trial of the second cause of action (Nos. 8-14, *supra*), which are discussed at pages 84-145, need not be considered by this Court.

\*\*All references to the record herein set forth in numbered footnotes use Lear's abbreviated form.

<sup>1</sup>Ex. 7 for identification, A-I, 11, C. T. B-7 [R. T. 293, 296].

<sup>2</sup>R. T. 291.

<sup>3</sup>Dep. 194.

<sup>4</sup>R. T. 298, 2142.

<sup>5</sup>Ex. 7 for identification. See fn. 1.

on his success, for which he would be paid a "mutually satisfactory royalty."

Lear was a manufacturer of gyros, gyro assemblies and gyro systems which it sold to the Government, among others,<sup>6</sup> had its main development and production facility in Grand Rapids, Michigan,<sup>7</sup> and was in competition with other manufacturers of gyros, such as Sperry, Bendix, Eclipse, Pioneer, Minneapolis-Honeywell, Kearfoot<sup>8</sup> and others. For many years prior to Adkins' joining Lear, Lear had no new basic gyro development program and its gyro development efforts were sporadic,<sup>9</sup> in that it was content to produce only new systems utilizing the "aluminum" gyros which it had been manufacturing and selling for years.<sup>10</sup> However, the advent of the jet aircraft, capable of far greater speed than propeller driven aircraft, rendered obsolete Lear's aluminum gyros, the most accurate of which had a drift error of 17° per hour,<sup>11</sup> and created an urgent industry-wide need for a more accurate, low-cost gyro.<sup>12</sup> It was therefore imperative for Lear to develop a more accurate, low cost gyro as fast as possible and before other members of the gyro industry.<sup>13</sup>

Adkins was a mechanical engineer, and prior to joining Lear had spent approximately ten years with the Air Force Flight Instrument Section at Wright Field, Dayton, Ohio, where he rose through the ranks to become

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<sup>6</sup>R. T. 2448, 2141-2142.

<sup>7</sup>R. T. 298.

<sup>8</sup>R. T. 2141-2142, 2444-2445.

<sup>9</sup>R. T. 1764.

<sup>10</sup>R. T. 2448.

<sup>11</sup>R. T. 2444, 2141-2142, 290, 308, 2545-2546.

<sup>12</sup>A-I, 72, R. T. 2444, 2141-2142.

<sup>13</sup>R. T. 2141-2142.



chief of that section.<sup>14</sup> In that capacity, it was Adkins' responsibility to determine the future needs of the Air Force with respect to gyros and other flight instruments, to prepare specifications therefor, to select from industry capable development sources, and to supervise the testing and qualification of those instruments.<sup>15</sup> After leaving the Air Force in April of 1951, Adkins accepted employment with the Schwien Engineering Company, another manufacturer of gyros, where he remained until early December of 1951. Thus, when Adkins joined Lear he was unquestionably a gyro expert intimately familiar with all new gyro developments in the United States, and was cognizant of the immediate and future needs of both the Air Force and the Navy.<sup>16</sup>

A gyro is used in aircraft to tell the pilot the direction and attitude of the aircraft.<sup>17</sup> Simply stated, the gyro contains a rotor which is driven electrically at high speed.<sup>18</sup> Because of the principle of gyroscopics, the rotor maintains its stable position in space.<sup>19</sup> The rotor is mounted in an inner gimbal ring, the inner gimbal ring is mounted in the outer gimbal ring, and the whole structure is mounted in a frame fixed to the aircraft.<sup>20</sup> The arrangement of the gimbal rings allows the aircraft to move in any direction while the rotor maintains its fixed orientation in space.<sup>21</sup> Electrical measurements of the position of the gimbals

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<sup>14</sup>R. T. 2442-2443.

<sup>15</sup>R. T. 2443, 2445, 2446-2448.

<sup>16</sup>R. T. 2447.

<sup>17</sup>R. T. 278, 285, 275-276.

<sup>18</sup>R. T. 282.

<sup>19</sup>R. T. 276-278.

<sup>20</sup>R. T. 273-274.

<sup>21</sup>R. T. 272.



are recorded on gauges which tell the pilot the direction and attitude of the aircraft.<sup>22</sup>

Each gimbal ring has two short axle ends 180° apart called trunnions.<sup>23</sup> The trunnions are mounted in ball bearings<sup>24</sup> which are attached to the next outer member, *i.e.*, the inner gimbal is so mounted in the outer gimbal and the outer gimbal is so mounted in the frame.

The most important factor in achieving gyro accuracy is accurate alignment of the ball bearings with each other on the opposite ends of the gimbal.<sup>25</sup> The faces of the ball bearings must be parallel with each other and the centers must be coaxial in order to avoid friction, which causes the gyro rotor to "drift" from its stable position in space and results in gyro inaccuracy.<sup>26</sup>

The gimbal bearings in the Lear "aluminum" gyro were aligned by first holding the gimbal, which was made of one thick piece of rigid aluminum,<sup>27</sup> in a fixed position and by then boring, tapping and reaming coaxial holes oppositely positioned through the gimbal in one operation.<sup>28</sup> The bearings were then fitted, either by pressing or threading, directly into the seats so formed.<sup>29</sup> Parallel alignment in these aluminum gyros thus depended entirely upon the machining of the gimbal.<sup>30</sup> Similarly, coaxial alignment depended solely

<sup>22</sup>R. T. 278, 284-285.

<sup>23</sup>R. T. 273.

<sup>24</sup>R. T. 273-274.

<sup>25</sup>R. T. 290, 2157-2158.

<sup>26</sup>R. T. 2488-2489, Ex. 74 [R. T. 2494], R. T. 290, 1511, 2505.

<sup>27</sup>R. T. 2156-2157.

<sup>28</sup>R. T. 2156-2157, 2452-2453, 2543-2545.

<sup>29</sup>R. T. 2453, 2156-2157.

<sup>30</sup>R. T. 2156-2157.

upon the accuracy of the drilling operation.<sup>31</sup> Both of these operations required skilled operators and expensive machinery.<sup>32</sup> The same construction was employed by other members of the gyro industry.<sup>33</sup>

After joining Lear on January 2, 1952, Adkins began experimenting with aligning bearing cups into which the bearings were placed.<sup>34</sup> In Adkins' first experimentation the bearing cups were self-aligning.<sup>35</sup> After several months of unsuccessful experimentation using the self-aligning principle, and in July of 1952,<sup>36</sup> Adkins rejected the use of self-aligning bearing cups and in mid-1952<sup>37</sup> conceived of his idea, discovery and invention of precisely prealigning a pair of bearing cups in coaxial and parallel relationship to each other and then adjusting and permanently affixing them in place in oversized and inaccurately formed holes in the gimbal to achieve precise parallel alignment irrespective of the parallelism of the two ends of the gimbal and precise coaxial alignment irrespective of the alignment of the receiving holes.<sup>38</sup> This date is confirmed by the testimony of two other Lear employees (Holmes<sup>39</sup> and Bell<sup>40</sup>) and by Adkins' "priority drawing,"<sup>41</sup> which bears Lear's date stamp of Au-

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<sup>31</sup>R. T. 2156-2157.

<sup>32</sup>R. T. 2544.

<sup>33</sup>R. T. 2451-2453.

<sup>34</sup>R. T. 2455-2456.

<sup>35</sup>R. T. 2455-2456.

<sup>36</sup>R. T. 2455-2458.

<sup>37</sup>R. T. 2458, 306.

<sup>38</sup>See Point V for all citations on this point.

<sup>39</sup>R. T. 2438, 2439-2440.

<sup>40</sup>R. T. 2433-2435.

<sup>41</sup>Ex. 72 [R. T. 2346, 2461].

gust 25, 1952 and Adkins' notarized signature dated August 26, 1962. This drawing depicts and describes alignment of the bearing cups without the bearings in place and states that the surface of the bearing cup and the receiving hole may be of any configuration which will accomplish the desired result. Adkins immediately disclosed his invention to Lear's executive and engineering personnel in California and Grand Rapids, Michigan, both orally and in writing.<sup>42</sup> As confirmed by Lear's progress reports, Adkins' invention reduced gyro drift error to less than 2° per hour,<sup>43</sup> as compared to Lear's previous best of 17° per hour.<sup>44</sup> Adkins thereafter personally adapted his invention for use in the 2156 gyro.<sup>45</sup>

After Adkins' disclosure and in September of 1952,<sup>46</sup> Lear's Grand Rapids division, spurred on by Adkins' achievement, began experimenting on a full-time basis with a self-aligning assembly using cylindrical flanged bearing cups with a knife-edged "tippy washer" which permitted the cup to rock on two different planes in an oversized cylindrical receiving hole,<sup>47</sup> despite Adkins' advice that this approach was unworkable. In the fall of 1953 the Grand Rapids division finally agreed with Adkins, and on October 23, 1953,<sup>48</sup> just as the 2152 and 2153 steel gyros were about to go into production, the Grand Rapids engineering personnel, at a "midnight"

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<sup>42</sup>R. T. 307, 2466, 2136-2140, 2177-2178, 2468.

<sup>43</sup>R. T. 2546.

<sup>44</sup>R. T. 319-320.

<sup>45</sup>R. T. 1763-1764.

<sup>46</sup>R. T. 1768-1769, 2145-2146, 1780-1782, 1783, Ex. L [R. T. 909].

<sup>47</sup>R. T. 1773.

meeting,<sup>48</sup> adopted Adkins invention and began to use it in the 2152 and 2153 steel gyros. Later, Lear used Adkins' invention in the 2151 and 2171 gyros.<sup>49</sup>

The only difference between the 2156 gyro and the four steel gyros was the shape of the bearing cups and the receiving holes.<sup>50</sup> The 2156 gyro used three different bearing cup and receiving hole configurations,<sup>51</sup> one of which was a spherical cup and a conical receiving hole,<sup>52</sup> while all four steel gyros used a cylindrical flanged cup and a cylindrical receiving hole.<sup>53</sup> The difference in shape, however, made no functional difference whatsoever in assembling the gyros or in the resulting structure or in their resulting accuracy.<sup>54</sup> In fact, the difference in the shape of these parts was purely historical, resulting from the shape of those parts used in both Adkins' and Lear's unsuccessful self-aligning experimentation.

On February 15, 1954 Adkins applied for a United States patent on his invention.<sup>55</sup> The original application<sup>56</sup> contained three claims directed to bearing alignment, being numbered 7,<sup>58</sup> and 9. Numbers 7 and 8 were method claims and 9 was an apparatus claim.<sup>57</sup> All of these claims were rejected by the Patent Office on

<sup>48</sup>R. T. 2149.

<sup>49</sup>Ex. 49 [R. T. 875].

<sup>50</sup>R. T. 612.

<sup>51</sup>A-I, 55, R. T. 316.

<sup>52</sup>A-I, 55, R. T. 316.

<sup>53</sup>A-I, 62-63, R. T. 622-623.

<sup>54</sup>A-I, 65, R. T. 1783, A-I, 60-61, 614-616, A-I, 61-62, 617-619, A-I, 67-70, 2174-2177.

<sup>55</sup>A-II, 29, Ex. P, 2 [R. T. 1328].

<sup>56</sup>A-II, 56-57, Ex. P, 24-25.

<sup>57</sup>R. T. 1286.

September 8, 1954.<sup>\*58</sup> On March 9, 1955 Adkins filed Amendment A to his application which cancelled claims 7 and 8 and replaced them with new method claims 18 and 19 and amended apparatus claim 9.<sup>59</sup> This was the status of the application on September 15, 1955, when the parties entered into the 17-page "Agreement"<sup>60</sup> on which this action was brought.

In September of 1952,<sup>61</sup> and immediately after Adkins disclosed his invention to Lear, Lear began negotiations for a more formal agreement. During these negotiations, Adkins was not represented by counsel,<sup>62</sup> whereas Lear extensively used the services of both house counsel and outside patent counsel.<sup>63</sup> As will be seen (Point III, *infra*), Lear obviously envisioned this agreement, couched in terms of a formal patent license agreement, as the means of avoiding its far broader obligation under the letter agreement of December 29, 1951, under which the disclosure of an idea, "discovery or invention which Lear used was the sole basis of the bargain."<sup>\*\*</sup>

The license agreement provided, in effect, in paragraphs 1(b) and 2(a),<sup>64</sup> that Lear took an *exclusive* license of the invention disclosed or intended to be dis-

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\*The successive rejection of the claims until the inventor precisely claims the invention disclosed in the specifications is typical, Seidel, *What the General Practitioner Should Know About Patent Law and Practice* (1956), A. L. I., p. 60.

<sup>58</sup>A-II, 65, Ex. P, 33.

<sup>59</sup>A-II, 69, 71, Ex. P, 37, 39.

<sup>60</sup>A-II, 1, Ex. 8 [R. T. 296].

<sup>61</sup>R. T. 2184-2185.

<sup>62</sup>R. T. 2184-2185, 2500-2501.

<sup>63</sup>See fns. 61, 62.

<sup>\*\*</sup>See *Desny v. Wilder* (1956), 46 Cal. 2d 715.

<sup>64</sup>A-II, 2, 4, Pet. App. 128, 130.



closed in the application, which license shifted to a license under the issued claims if a patent issued with claims covering the gyros, in issue.\* In paragraph 17<sup>65</sup> Lear "agreed and understood" that the 2156 gyro and the 2152 and 2153 steel gyros contained Adkins' invention and were covered by his application. Under paragraph 6,<sup>66</sup> Lear could terminate the agreement if the Patent Office refused to issue a patent in final Patent Office action or if a patent issued which did not contain "substantial" claims (claims covering the gyros in issue) or if the patent was held invalid. Under paragraphs 2(a) and 3(g),<sup>67</sup> Lear could terminate the "license" (not the agreement) if it ceased using Adkins' invention in its gyros. Finally, insofar as material hereto, paragraph 13<sup>68</sup> stated that the agreement "cancels and supersedes the agreement between the parties hereto dated December 21, 1951."

Thus, by the agreement of September 15, 1955, Lear accomplished its objective of reducing its liability under the letter agreement by conditioning its obligation for further royalties upon the issuance of a patent having "substantial claims," and further conditioning its obligation for further royalties if the patent was held invalid.

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\*The fact that Lear did not license the claims of the application is conclusively demonstrated by the fact that, as Lear knew, the original claims had been rejected and new and amended claims were pending, and that no reference was made in the agreement to the pending claims or to the possibility of further amendments.

<sup>65</sup>A-II, 16-17, Pet. App. 146.

<sup>66</sup>A-II, 11, Pet. App. 138-139.

<sup>67</sup>A-II, 4, 8-9, Pet. App. 130, 135-136.

<sup>68</sup>A-II, 15, Pet. App. 144.



On March 21, 1957 the Patent Office rejected claims 9, 18 and 19 of Amendment A, which was the first Patent Office action after the agreement was signed.<sup>69</sup> Despite the provisions of paragraph 17 of the agreement stating that the steel gyros contained Adkins' invention and the agreement to pay royalties until final Patent Office action, Lear wrote to Adkins on September 10, 1957<sup>70</sup> and advised him that in its opinion his invention was not being used in the steel gyros and was not patentable. Lear then ceased paying royalties on the steel gyros but continued to account for royalties on the 2156 gyro, which it credited against royalties previously paid on the steel gyros. Adkins objected in writing, stating that Lear's letter was "contrary to the signed agreement, specifically with respect to products covered,"<sup>71</sup> and when Lear persisted in its refusal to pay royalties, Adkins resigned on December 26, 1957, effective on February 1, 1958.<sup>72</sup> Under the last unnumbered paragraph of paragraph 11 of the license agreement,<sup>73</sup> the license became non-exclusive on August 16, 1958, six months and fifteen days after Adkins left Lear's employ by reason of Lear's failure to elect one of the exclusive license options of that paragraph.

On September 27, 1957<sup>74</sup> Adkins filed Amendment B to his patent application, further amending apparatus claim 9, amending method claims 18 and 19 and adding "new apparatus claims" 20 and 21. On January 21,

<sup>69</sup>A-II, 76, Ex. P, 44.

<sup>70</sup>Ex. 36 [R. T. 505, 506].

<sup>71</sup>Ex. 37 [R. T. 506, 507].

<sup>72</sup>Ex. 38 [R. T. 508, 509].

<sup>73</sup>A-II, 15, Pet. App. 144.

<sup>74</sup>A-II, 77-79, Ex. P, 45-47.

1958,<sup>76</sup> and without any intervening Patent Office action, Adkins filed Amendment C, which added new apparatus claims 22 through 26. On June 20, 1958 the Patent Office again rejected all of the bearing alignment claims of Amendments B and C.<sup>76</sup> On December 30, 1958 Adkins filed Amendment D to his application, amending the specifications and further amending original apparatus claim 9, cancelling method claims 18 and 19 and replacing them with new claims 27 and 28, and reasserting claims 20 through 26.<sup>77</sup> Before any Patent Office action on Amendment D, and on April 8, 1959,<sup>78</sup> Lear wrote to Adkins and purported to terminate the license agreement under paragraphs 2(a) and 6 thereof. Adkins again objected in writing.<sup>79</sup>

On May 4, 1959,<sup>80</sup> and again before any Patent Office action on Amendment D, Adkins filed Amendment E to his application, which cancelled claim 9 and claims 20 through 28 and substituted new apparatus and method claims 29 through 41 therefor.

On January 5, 1960 claims 29 through 36 issued to Adkins as claims 9 through 16 in United States Patent No. 2,919,586.<sup>81</sup>

Also on January 5, 1960 Adkins filed suit against Lear.<sup>82</sup> The complaint contained two causes of ac-

<sup>76</sup>A-II, 81-83, Ex. P, 49-51.

<sup>76</sup>A-II, 89, Ex. P, 57.

<sup>77</sup>A-II, 92-95, Ex. P, 60-63.

<sup>78</sup>Ex. 39 [R. T. 510].

<sup>79</sup>Ex. 40 [R. T. 511].

<sup>80</sup>A-II, 96-100, Ex. P, 64-68.

<sup>81</sup>A-II, 18, Ex. 10 [R. T. 304-305].

<sup>82</sup>C. T. B-1.

tion. Under the first cause of action Adkins sought to recover unpaid royalties under the license agreement for the period of January 1, 1955 to May 31, 1963, and alternatively, if Lear had effected a paragraph 2(a) or paragraph 6 termination of the license agreement by its letter of April 8, 1959, Adkins sought damages for the period thereafter under the unjust enrichment cause of action provided for in *Seagren v. Smith* (1944), 63 Cal. App. 2d 733. Under the alternative second cause of action, if the license agreement failed for any reason, Adkins sought damages for misappropriation in breach of confidence or for breach of an implied-in-fact contract or for unjust enrichment.

The case was tried before a jury between the dates of February 17, 1964 and May 4, 1964.<sup>83</sup> At the outset of the trial the trial court insisted that Adkins elect between the first and second causes of action, and when Adkins refused to do so, the trial court dismissed the second cause of action.<sup>84</sup> During the trial the trial court held,<sup>85</sup> and so instructed the jury,<sup>86</sup> that Lear had effected a termination of the license agreement on April 8, 1959 pursuant to paragraph 2(a), but also instructed the jury that the *Seagren v. Smith* unjust enrichment cause of action was applicable for the period thereafter, and that Lear would continue to be liable for the contractual royalty if it continued to manufacture and sell gyros covered by the claims of Adkins' patent.

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<sup>83</sup>R. T. 1, C. T. 1724.

<sup>84</sup>C. T. 2388.

<sup>85</sup>R. T. 865, 867, 2627.

<sup>86</sup>R. T. 3080.

The trial court made no ruling on the effect of Lear's attempt to terminate the license agreement under paragraph 6.

Before the case went to the jury, the trial court held that Lear was estopped to question the validity of Adkins' patent for the 2156 gyro and directed a verdict in Adkins' favor on the 2156 gyro for the entire period in suit.<sup>87</sup> The parties then stipulated that \$16,351.93 had accrued in royalties on that gyro.<sup>88</sup> The trial court, however, submitted to the jury, under proper instructions, the question of the validity of Adkins' patent<sup>89</sup> for the four steel gyros, and also submitted to it whether the four steel gyros infringed Adkins' patent.<sup>90</sup> By its verdict the jury found in favor of Adkins on these issues. Based on uncontradicted evidence as to the amount due, the jury returned a verdict for Adkins on the steel gyros in the amount of \$888,122.56 and a total verdict of \$904,474.49,<sup>91</sup> which was the full amount of Adkins' claim plus simple interest. On May 4, 1964 judgment was entered for Adkins for \$904,474.49.<sup>92</sup>

On July 2, 1964 the trial court granted Lear's motion for judgment *n.o.v.* with respect to the four steel gyros only, holding, after incorrectly redeciding purely factual issues of anticipation and obviousness (see Point V, *infra*), that Adkins' patent was invalid. The trial court then denied Adkins all royalties on the steel

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<sup>87</sup>R. T. 2838.

<sup>88</sup>R. T. 3143-3149, 3159, 3161-3162, 3164.

<sup>89</sup>R. T. 3143-3147, 3159-3161, 3163.

<sup>90</sup>R. T. 3141-3143, 3149-3152, 3154-3161.

<sup>91</sup>C. T. 1724.

<sup>92</sup>C. T. 1725.

gyros, but allowed royalties on the 2156 gyro for the entire period in suit.<sup>93</sup>

The District Court of Appeal<sup>94</sup> reversed the judgment *n.o.v.* for the period prior to April 8, 1959 and affirmed it for the period thereafter, and also affirmed the dismissal of the alternative second cause of action. That court did not consider paragraph 2(a) of the license agreement, but held that Lear had effected a termination on April 8, 1959 under paragraph 6,<sup>95</sup> based on the erroneous conclusion that the third rejection of claims by the Patent Office constituted final Patent Office action (A-69), even though not so designated\* and even though a patent thereafter issued to Adkins on his application with claims covering the same invention. The District Court of Appeal then went on to hold that prior to termination of the license agreement, Lear was liable for royalties under the license agreement and estopped to question both validity and infringement,<sup>96</sup> and remanded the case to the trial court for the sole purpose of determining the amount of damages which had accrued prior to April 8, 1959.<sup>97</sup> For the period after that date, the court erroneously concluded that the State courts had no further jurisdiction.<sup>98</sup>

The California Supreme Court reversed the District Court of Appeal, holding that Lear had not effected a termination of the license agreement under either para-

<sup>93</sup>A-I, 74-82, Pet. App. 94-102.

<sup>94</sup>A-I, 121-158, Pet. App. 54-91.

<sup>95</sup>A-I, 136, Pet. App. 69.

\*See Rule 1.113 of the Rules of Practice of the Patent Office.

<sup>96</sup>A-I, 143-149, Pet. App. 76-81.

<sup>97</sup>A-I, 157, Pet. App. 90-91.

<sup>98</sup>A-I, 141, 153-155, Pet. App. 74, 86-88.



graph 2(a)<sup>99</sup> or paragraph 6.<sup>100</sup> In so doing, the California Supreme Court correctly held that the purpose of the paragraph 2(a) termination clause was to permit Lear to avoid the annual minimum royalty payments required by paragraph 3(g) in the event Lear elected to cease using Adkins' invention in its gyros.<sup>101</sup> Based on the stipulation that Lear continuously and without interruption manufactured all five gyros in issue, that court held that Lear had not effected a paragraph 2(a) termination of the license agreement.<sup>102</sup> With respect to the paragraph 6 termination clause, that court correctly held that Lear could not unilaterally and incorrectly anticipate final Patent Office action, and construed that paragraph to permit Lear to terminate only in the event that the Patent Office, in final Patent Office action, refused to issue a patent containing claims covering the gyros in issue.<sup>103</sup> The court then held that under the settled doctrine, Lear was estopped to question the validity of Adkins' patent,<sup>104</sup> and directed its attention to the issued claims. On this issue, the court held that under the Federal test for infringement, (a) Adkins had not added "new matter" to his application;<sup>105</sup> (b) the doctrine of file wrapper estoppel was inapplicable;<sup>106</sup> (c) under the uncontradicted evidence Lear was not building the five gyros in issue according to the prior

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<sup>99</sup>A-I, 191, Pet. App. 28.

<sup>100</sup>A-I, 183-184, Pet. App. 20.

<sup>101</sup>A-I, 186-190, Pet. App. 23-27.

<sup>102</sup>A-I, 191, Pet. App. 28.

<sup>103</sup>A-I, 183-184, Pet. App. 20.

<sup>104</sup>A-I, 191, Pet. App. 28.

<sup>105</sup>A-I, 168-169, Pet. App. 5-6, 33-38.

<sup>106</sup>A-I, 192-193, 196-197, Pet. App. 29, 33.



art patents, considered singly or collectively, together with ordinary mechanical skill;<sup>107</sup> and (d) the issued claims covered all five gyros by their literal language,<sup>108</sup> as well as under the doctrine of equivalents.<sup>109</sup> Thus, the court concluded that Lear was in breach of contract, reversed the judgment *n.o.v.* and reinstated the jury verdict and the judgment thereon.<sup>110</sup> That court then affirmed the dismissal of the alternative second cause of action because it was moot.<sup>111</sup>

### Summary of Argument.

#### I.

As has been seen from the questions presented *supra*,<sup>1</sup> this case involves fourteen separate questions, eleven raised by Lear and three which arise therefrom. Only three questions—the inclusion of alleged “new matter” in the application, the construction of the issued claims, and the application of the doctrine of file wrapper estoppel—were timely raised by Lear in the California courts as Federal questions. As Lear concedes, the California Supreme Court stated the correct rules of law announced by this Court, and asserts only that that court improperly applied those rules. Since this Court is a court of law and not a court for the correction of this type of error, if, indeed, there be any error, none of these questions is a substantial Federal question. Other than the two questions added in its

<sup>107</sup>A-I, 192, 199-202, Pet. App. 29, 36-38.

<sup>108</sup>A-I, 199, Pet. App. 35-36.

<sup>109</sup>A-I, 199, Pet. App. 35-36.

<sup>110</sup>A-I, 214, Pet. App. 51.

<sup>111</sup>A-I, 212, Pet. App. 48-49.

brief on the merits concerning all of the factual and legal issues of validity and infringement, the remaining questions were raised by Lear in the California courts only as questions of State law and not Federal law. Some related to the construction of a contract, which is purely a question of State law; the rest related to Lear's attempt to avoid the doctrine of licensee estoppel, which Lear conceded was settled law, by claiming under State law that it had either terminated or repudiated the license agreement. With the exception of a few questions mentioned in passing in its petition for a rehearing in the California Supreme Court (which was denied), only in its petition for a writ of certiorari did Lear assert that these questions, and new questions of alleged "misuse" of patent rights, were Federal questions. However, it has long been the rule that this Court will not consider a Federal question unless timely asserted in the State court as a Federal question. Federal questions presented for the first time in a petition for rehearing in the highest State court which is denied, or in a petition for a writ of certiorari, or in a brief on the merits, come too late for consideration by this Court.

Consequently, the petition for a writ of certiorari should be dismissed as improvidently granted, as no question is properly before this Court under long-settled procedural decisions.

## II.

No misuse of the patent arises from the California Supreme Court's construction of the license agreement. That court did not construe the license agreement to require "cessation of manufacture," as Lear asserts, but, rather, held only that Lear had no unconditional

termination right and could not terminate the license agreement while continuing to "use Adkins' invention" in its gyros. In other words, Lear does not have to cease manufacturing any gyros in order to terminate the agreement, but only has to stop using Adkins' invention in its gyros. In fact, Lear never ceased manufacturing gyros using Adkins' invention, and thus neither the military nor anyone else was deprived of a single gyro. Consequently, the agreement, as construed, does not enjoin or restrain Lear from manufacturing gyros using Adkins' invention, and 35 USC §283 and 28 USC §1498 (which expressly excepts license agreements) need not be considered.

### III.

Nor does a license under a patent application misuse the patent grant by antedating the monopoly of the patent, as Lear also asserts. Although a patent applicant concededly has no property right under a patent application, the subject matter of the license for the period prior to the issuance of the patent is not "property." Lear's agreement to pay a reasonable royalty is based on the disclosure of a secret idea, discovery and invention, and the agreement expressly provides that the payment of royalties ends if no patent is issued in final Patent Office action. Thus, Lear's reliance on *Brulotte v. Thys Co.* (1964), 379 U.S. 29, is wholly inapplicable, since that case involved the collection of royalties after the patent had expired, and the Court recognized that a license of unpatented devices "would present wholly different considerations." No Federal law is violated where a manufacturer agrees to pay an inventor for the disclosure of a secret idea, discovery and invention.

IV.

Since effect must be given to both the patent laws and the anti-trust laws without permitting one to encroach upon the other, where there is no patent misuse (such as price fixing or "tie-ins"), the anti-trust laws do not come into play and the long-settled doctrine of licensee estoppel does not violate the anti-trust laws.

To the contrary, the doctrine of licensee estoppel is necessary to uphold the sanctity of private contracts in order to prevent the licensee from obtaining what he has bargained for and received without paying for it by resorting to a defense based on the invalidity of the patent, which was and is irrelevant to the bargain. This is particularly true in the case at bar. Lear bargained, first, not for a conclusively valid patent, but for the exclusive, immediate and uncontested right to use the secret invention which happened to be disclosed in the patent application and for the cancellation of the letter agreement of December 29, 1951, and, second, if a patent issued, for the exclusive right to use what was covered by the issued claims of a presumptively valid patent, again not a conclusively valid patent, free from suit under the letter agreement and free from suit for patent infringement. In other words, the true basis of the bargain was never a conclusively valid patent, since Lear did not reserve the right to contest validity if sued for breach of contract, nor did Lear reserve the unconditional right to terminate the license agreement, continue to use the invention, and contest validity in a patent infringement suit instituted in the Federal courts. Moreover, because Lear represented to Adkins in the license agreement that if the letter agreement were cancelled, it would continue to pay the royalty if a

patent issued with claims covering the bearing alignment construction in its gyros and Adkins relied on that representation, Lear should now be estopped to avoid that representation.

In addition, the doctrine of licensee estoppel is essential to enforce the policy of the patent clause and the patent laws. The patent laws provide that an issued patent is presumed to be valid, and that "patents shall have the attributes of personal property." It is settled law that Congress intended that one of these attributes is the right of the patentee to license his patent. Similarly, it cannot be denied that Congress intended to allow a patent applicant to license his application, as the patent laws permit sale of a patent application, and a license is a lesser included right. From the standpoint of both the licensor and the licensee, the best if not the only way to arrive at a fair price is based on a royalty per unit sold, as the value of the invention depends on the number of units sold and the price received therefor, which cannot be determined in advance. If the licensee could, after agreeing to pay a royalty, then defeat the collection of the royalty by challenging the validity of the patent and still use the invention, the system of licensing patents would end, since the inventor would not know until after protracted and expensive litigation whether or not he could collect the agreed royalty. This would clearly discourage individual inventors from attempting to discover something new and useful, or encourage them to license their discoveries as trade secrets and not use the patent system, thereby subverting the policy of the patent clause and the patent laws which is to encourage invention and encourage disclosure of the invention. Thus, where



there has been no misuse of the patent, estopping the licensee from contesting validity is essential to effectuate the underlying policy of the patent laws and does so in a manner which does not transgress the anti-trust laws.

The effect of judicial abolition of the doctrine of licensee estoppel on existing business relationships and further use of the patent system cannot be determined from this record or accurately estimated independent of the record, and is a matter which has received the attention of Congress in public hearings held on bills introduced to abolish the doctrine as contrary to the anti-trust laws. All of these bills died in committee, and thus Congress thereby impliedly recognized that the doctrine *per se* does not conflict with the anti-trust laws. If the doctrine, which has been relied upon by thousands of inventors who have licensed their patents, is to be abolished, it should be done by Congress prospectively, and not retroactively by the judiciary.

#### V.

If the doctrine of licensee estoppel is to be now judicially overturned, elemental considerations of fairness inherent in enforcing agreements require that the licensor be permitted to recover royalties which have accrued prior to the final declaration of invalidity by a court of last resort. Until that event occurs, the licensee has received everything he bargained for and should be required to pay for it. This rule would dampen to some extent the harsh effect of allowing a licensee to use what belongs to the licensor without paying for it, while at the same time it would give the licensee the incentive to challenge validity in order to avoid further royalty payments.



VI.

If the doctrine of licensee estoppel does not violate either the patent laws or the anti-trust laws, the licensee should not be permitted to repudiate and stand out from under the license agreement in order to contest validity, for the simple and obvious reason that what cannot be done directly should not be permitted by indirection. To uphold the doctrine of licensee estoppel and then permit repudiation in order to contest validity would be to place form over substance and would have the same effect as a square holding abolishing the doctrine of licensee estoppel. Having once made its bargain, the licensee should not be able to avoid it by a mere procedural device. This is especially true in the case at bar, where conclusive validity was and is irrelevant to the bargain and invalidity (even if conclusive validity was a part of the bargain) would not result in a total failure of consideration, since Lear received under the license agreement other substantial and non-severable consideration, namely:

1. The exclusive, uncontested and immediate right to use the secret idea, discovery and invention until final Patent Office action;

2. The right to cease payment of "further royalties" if no patent issued, or if a patent issued with claims which did not cover the gyros in issue, or if the patent was held invalid in third party proceedings;

3. The exclusive right to manufacture the device covered by the claims if a patent issued, which included the not inconsiderable right to label the gyros as patented;

4. The protection of a presumptively valid patent (which Lear concedes discourages manufacture by others);

5. The cancellation of the letter agreement of December 29, 1951;

6. Freedom from suit under the letter agreement of December 29, 1951; and

7. Freedom from suit for patent infringement.

## VII.

Whether the licensee can challenge the "patentability" of the invention before final Patent Office action is solely a State issue relating to the construction of the agreement. In this case, Lear did not bargain for any particular claims of the application but for issued claims covering its gyro products, and in the interim, the immediate and uncontested right to use the secret invention disclosed in the specifications and which Lear agreed it was using in the 2156 gyro and the steel gyros it was then manufacturing. Thus, the basis of the bargain before final Patent Office action was not the claims of the application nor any new or amended claims but the right to use the invention in its gyros. The total irrelevance of particular claims is well demonstrated by the fact that no mention was made of the fact that the bearing alignment claims of the original application had been rejected at the time the agreement was executed and new claims were pending, and also by the fact that no mention was made of the possibility of future rejections and future amendments inserting new or amended claims. Thus, when Lear asserts that it should be permitted to challenge the "patentability" of Adkins' invention, it is really arguing that the Cali-

fornia Supreme Court's construction of the license agreement, requiring Lear to pay royalties until final Patent Office action, was incorrect, and Lear's argument on this issue simply invites this Court to redetermine that State issue in accordance with Lear's views.

### VIII.

The doctrine of licensee estoppel should not be any different after a patent issues because the license is initially under the patent application merely because the licensor can broaden or has broadened the claims. If the claims are broadened, the licensee can always show that the issued claims do not cover the invention which was the subject matter of the license agreement and/or that the issued claims do not cover the invention disclosed and described in the original application. However, if the issued claims do in fact cover the same invention disclosed in the application and also the invention which is the subject matter of the agreement, then the licensee has received precisely what he bargained for and must continue to account for royalties.

### IX.

Amendment D did not add any new matter to the specifications. Although new language was added, new language is not *ipso facto* new matter. New language is new matter only where it adds to or changes the nature of the invention initially disclosed and described. Where the patentee, in additional language, merely makes explicit what is already implicit, or further defines what is already disclosed and described, or describes an obvious equivalent to what is disclosed and described, this does not constitute new matter. The addition of the words "means" did not change Adkins'

invention from a method to an apparatus, since Adkins always contemplated his invention as both a method and an apparatus by including in the original application both method and apparatus claims and by always having apparatus claims pending. Moreover, the original specifications expressly stated that the bearing cups without the bearings in place could be aligned; and in any event, this is so obvious an equivalent to one skilled in the gyro art as aligning the bearing cups with the bearings in place, that both were originally disclosed. Furthermore, removable and replaceable bearings were always contemplated, since the original specifications teach affixation of the bearing cups only. Although the original specifications are silent as to whether the bearings are removable, everyone skilled in the art knows that removable bearings are essential to good gyro design: Thus, expressly stating that the bearings are removable merely makes explicit what is implicit. The original specifications did not contemplate only a contacting ball in socket device achieving alignment by universal motion. Contact or the absence of contact was not even mentioned in the original specifications, which stated only that the bearing cups could be oriented "in any direction," which is the antithesis of contact. The original specifications also refer to other surfaces capable of being aligned, *i.e.*, "sphere in sphere," "knife edges," "other devices" and other "similarly cooperating surfaces." To add that "any desired configuration" may be used is no more than a redundancy. As all witnesses testified, the original specifications do not expressly mention what the aligning motion is, and, as they all testified and as Lear concedes, it is angular tilt, not universal motion. The

remaining language added by Amendment D further explained the advantages of Adkins' invention over the prior art, which language cannot be new matter since it neither adds to or subtracts from the invention initially disclosed and described and does not change the nature of the invention in any way. Similarly, explaining additional uses for the invention does not change the nature of the invention, but simply notifies the public of the range of applications to which the inventor is entitled, whether he expressly claims them or not.

The insertion of new language, even if it be new matter, cannot constitute fraud, as what is added is fully disclosed to the Patent Office, and the determination of this question rests solely upon a comparison of the new language with the initial disclosure. There is not a scintilla of evidence in this record that Adkins either misrepresented anything to or concealed anything from the Patent Office. In fact, his "priority drawing" dated in August 1952 conclusively disproves any intentional misrepresentation.

Finally, as the California Supreme Court found, the issued claims are fully supported by the initial disclosure, which ends the question.

#### X.

The California Supreme Court correctly stated the rule for the construction of claims and did not use the specifications to expand the claims. Rather, that court construed the claims with reference to the disclosure in the specifications, and correctly determined that the specifications did not limit the claims to any particular configuration of parts or to any required contact between the parts. Nor did that court read



any part of the cancelled method claims into the issued apparatus claims. To the contrary, the court was very careful to point out that the method and the mandrel used in the method were not in any way a part of the pair of three cooperating elements which comprised the issued apparatus claims.

## XI.

The California Supreme Court correctly stated the doctrine of file wrapper estoppel and correctly found that the issued claims were new and broader claims which had not been limited or narrowed in any way to avoid a prior rejection. It has long been the rule that where a patentee, rather than limiting his claims to avoid a rejection, broadens them and obtains those broad claims, no file wrapper estoppel exists. Thus, any interim claims which spoke of "convex" and "concave" surfaces and others which used the term "circular apertures" which were cancelled, cannot limit the issued claims which require only surfaces which "generally correspond" and contemplate, as do the specifications, surfaces of all shapes which will accomplish the desired result, whether spherical, conical, cylindrical, square, flat, concave, convex, etc. Moreover, even if the term "generally corresponds" were limited to convex or concave parts and also to circular apertures in the gimbal, the claims would still cover the steel gyros, which use a convex bearing cup in a circular aperture in the gimbal.

## XII.

Although Lear invites this Court to consider every factual and legal issue relating to validity, the Seventh Amendment prohibits this Court from reconsidering the

factual issues of anticipation and obviousness, and permits this Court to consider, based on the evidence most favorable to the patentee, only whether or not the invention meets the constitutional standard for invention. Since this question was not one of the questions presented in Lear's petition, this Court, if it determines that validity must be reached on the merits, should remand the case to the California Supreme Court (as the Government concedes in fn. 15 on p. 26), which has not yet squarely considered that issue, in accordance with the announced policy to permit the lower courts to first pass on questions. If this Court does decide the issue of validity, it should conclude that Adkins' patent is valid, since Adkins has discovered a new permissive cooperation among a pair of three old elements which accomplishes new and useful results in a new and different way, and makes a significant step forward by solving a problem that the prior art failed to solve.

### XIII.

Since the jury found that the steel gyros infringe Adkins' patent, the Seventh Amendment also prohibits this Court from reconsidering that factual issue. Moreover, this issue also is not one of the issues raised in Lear's petition. In addition, this Court should not essay an independent determination of the question of infringement merely by looking at Adkins' patent, the prior art patents and the assembly drawings of the steel gyros. Although anyone who can read cross section drawings can identify and count the number of parts, expert testimony is essential for a correct understanding of the cooperative relationship among the different elements in all of these devices, as well as what results

each device achieves and how each does so, if it does. Thus, although Lear states that only radial movement accomplishes alignment in the steel gyros, the uncontradicted testimony of both Adkins' and Lear's witnesses showed that the angular tilt taught by Adkins' patent is the only motion which accomplishes the desired alignment in the steel gyros. This testimony also showed, without contradiction, that the steel gyros have the same elements in the same cooperative relationship and achieve the same result in the same way as Adkins' patent and that no less than five distinctions exist over every prior art patent. Consequently, Adkins' patent, and not any prior art patent, covers the steel gyros by the literal language of the claims. Moreover, since Lear concedes that Adkins' claims cover the 2156 gyro, and all witnesses testified that the only difference in the steel gyros is the shape of the parts, which is a non-functional difference, Adkins' claims also cover the steel gyros by the doctrine of equivalents.

#### XIV.

In the event that the agreement fails either because the patent is invalid or because the agreement is otherwise unenforceable, this Court should then remand the case to the California courts for a trial on the alternative second cause of action (misappropriation in breach of confidence, breach of implied-in-fact contract and unjust enrichment) which was dismissed by the California Supreme Court as moot when it affirmed full recovery on the primary first cause of action.

I.

**NO SUBSTANTIAL FEDERAL QUESTION WAS  
TIMELY RAISED IN THE CALIFORNIA COURTS.**

In demonstrating that Lear did not timely raise any substantial Federal question, Adkins will use herein, for ease of reference, the same numbering previously used in separately restating the questions presented. Questions Nos. 1, 8 and 14 will not be discussed in this section, as they arise only if Lear timely presented and preserved any substantial Federal question.

Adkins' question No. 2:

Whether the California Supreme Court's construction of paragraphs 2(a) and 3(g) that Lear cannot terminate the license while using Adkins' invention in its gyros violates either the patent laws or the anti-trust laws, was raised by Lear for the first time in its petition for rehearing in the California Supreme Court\* only as a "violation of Federal law, the common law and California law,"<sup>112</sup> without any express mention of any section of the patent laws or the anti-trust laws. This brief reference to Federal law is not only insufficient, *Beck v. Washington* (1962), 369 U.S. 541, but also too late if presented for the first time in a petition for rehearing, *Hanson v. Denckla* (1958), 357 U.S. 235; *Radio Station WOW v. Johnson* (1945), 326 U.S. 120. Although Lear urges that it could not anticipate this result, the precise construction adopted by that

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\*"It is the settled rule [of the California Supreme] Court that points made for the first time on petition for rehearing will not be considered," *A. F. Estabrook Co. v. Industrial Acc. Com.* (1918), 177 Cal. 767.

<sup>112</sup>A-I, 216, Lear's "Petition for Rehearing" in the California Supreme Court, 10.

court was urged by Adkins in his pretrial statement of the issues on October 23, 1963,<sup>113</sup> again in his trial brief,<sup>114</sup> again in two briefs in the District Court of Appeal,<sup>115</sup> and again in petitioning the California Supreme Court for a hearing.<sup>116</sup> Lear argued only that under its construction, the paragraph 2(a) termination right was unconditional.<sup>117</sup> This is, of course, a State question, *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46, and not a Federal question, and this Court has long refused to consider a Federal question where the party bringing a question from a State court did not intend to assert a Federal right, *Oxley Stave Company v. Butler County* (1896), 166 U.S. 648, 655. (This question was No. 4 in Lear's petition and is included in No. 1 in Lear's brief.)

Adkins' question No. 3:

Whether a license agreement which is terminable if no patent issues violates either the patent laws or the anti-trust laws by requiring the licensee to pay royalties in exchange for the disclosure of an idea, discovery and invention which happens to be described in a secret pending patent application, was only barely mentioned in passing in Lear's petition for rehearing in the California Supreme Court, and was first squarely raised by Lear in its petition for a writ of certiorari in this Court. In the trial court,<sup>118</sup> the District Court of Appeal<sup>119</sup>

<sup>113</sup>A-I, 50, C. T. 1417.

<sup>114</sup>A-I, 50, C. T. 2319-2322.

<sup>115</sup>Resp. App. G-1-16.

<sup>116</sup>A-I, 159-163, Resp. App. H-1-5.

<sup>117</sup>A-I, 86-98, Resp. App. I-1-13.

<sup>118</sup>A-I, 63, R. T. 1019-1020.

<sup>119</sup>A-I, 117-119, Resp. App. K-1-3.



and the California Supreme Court,\* Lear argued only that under its construction of paragraph 6, it could unilaterally anticipate final Patent Office action, determine that no claims covering the gyros in issue could issue, and terminate the license agreement. This is also, of course, a State issue and not a Federal question, and thus question No. 3 should not be considered for the very same reasons that question No. 2 should not be considered. (This question was apparently included in questions Nos. 3 and 4 in Lear's petition and is now apparently included in questions Nos. 1 and 2(c) of its brief.)

Adkins' question No. 4:

Whether the doctrine of licensee estoppel is *per se*, and absent any patent misuse, contrary to either the patent laws or the anti-trust laws, was raised by Lear for the first time in its petition for a writ of certiorari, and therefore this question also comes too late for consideration, *Hanson v. Denckla, supra*. Moreover, Lear effectively waived this question, *Beck v. Washington, supra*, by not challenging the doctrine of licensee estoppel, but, rather, by seeking to avoid it by alleging termination and repudiation of the license agreement in the trial court, the District Court of Appeal and the California Supreme Court. In both appellate courts<sup>120</sup> Lear stated that, "It is a recognized principle of law that when a license agreement provides a grant of a right to either manufacture, use or sell a product incorporating a patented invention, the licensee is estopped to contest the validity of the licensed patent

\*The briefs in the District Court of Appeal become the briefs in the California Supreme Court when a hearing is granted.

<sup>120</sup>A-I, 120, Resp. App. E-1.

only as long as the licensee is operating under the license . . . This estoppel lasts only so long as the licensee operates under the license agreement. This estoppel arises not because of the express terms in the agreement, but because the licensee is using and enjoying the benefit and protection of the rights covered by the agreement and should not be permitted to reap the benefits of the agreement and at the same time contest the validity of the patents to show failure of consideration for the agreement." Further, Lear also did not raise this issue as a Federal question, but only as one of State law. Although the Government, in its *amicus* brief (p. 8), agrees that this issue was not timely raised, it claims that in view of *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827, it would have been futile to do so. However, it has long been the rule in this Court that it will not consider a Federal question unless "the party bringing a case here from [a State] court intended to assert a Federal right," *Oxley Stave Company v. Butler County* (1896), 166 U.S. 648, 655. Thus, this question is also too late for consideration by this Court. (This question was part of No. 1 in Lear's petition and is part of No. 2 in its brief.)

Adkins' question No. 6:

Whether a licensee may always repudiate and stand out from under the license agreement and then contest the validity of the patent in order to attempt to show a total failure of consideration, was raised by Lear only in passing in one brief filed in the District Court of Appeal, and was raised as a State issue and not as a Federal issue.<sup>121</sup> Thus, this question also falls within

<sup>121</sup>A-I, 86-111, Resp. App. I-1-26.

the rules discussed above and is too late for consideration here. (This question was part of No. 1 in Lear's petition and is part of No. 2(a) in Lear's brief.)

Adkins' question No. 7:

Whether a licensee who bargains not for any particular claims in the application, but, rather, for the right to use the invention disclosed in the application may, under the agreement, assert that no claims could issue or challenge the "patentability" of the invention, was also presented for the first time in Lear's petition for a writ of certiorari. Prior thereto, Lear argued, as shown *supra*, that under its construction of the license agreement, it could unilaterally and even incorrectly anticipate final Patent Office action and terminate the agreement. Thus, this issue also was raised below as a State issue and not as a Federal issue, and also falls within the rules discussed above and comes too late for consideration by this Court. (This question was included in Nos. 1 and 2 of Lear's petition and is No. 2(b) in Lear's brief.)

Adkins' question No. 8:

Whether the doctrine of licensee estoppel is any different where the license is initially under a patent application and then shifts to a license under the issued claims, was raised by Lear in the District Court of Appeal as a State question under "the law of California"<sup>122</sup> and was not raised by Lear as a Federal question until its petition for a writ of certiorari. As such, it is also too late under the rules stated above.

Adkins' questions Nos. 9, 10 and 11:

The only questions which were timely raised below are: (1) whether or not new matter was inserted in the

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<sup>122</sup>Pet. App. D-164.

specifications (No. 9); (2) the construction of the claims of the patent (No. 10); and (3) the application of the doctrine of file wrapper estoppel (No. 11). With respect to these three limited questions, Lear does not contend that the California Supreme Court did not correctly state the rules as announced by this Court, but, rather, asserts only that the California Supreme Court incorrectly applied these rules to the facts. As will be demonstrated in appropriate portions of this brief, the California Supreme Court did correctly apply these rules to the facts. However, since this Court is not a court for the correction of this type of error (if, indeed, any was committed), none of these questions constitutes a substantial Federal question which should be reconsidered by this Court, Rule 19-1(a), *Beck v. Washington* (1962), 369 U.S. 541, 551-555; Stern & Gressman, *Supreme Court Practice*, 147, §§4-18, 3rd Ed. (1962).

Adkins' questions Nos. 12 and 13:

In its brief, Lear has now included two new questions (Nos. 12 and 13) added into questions Nos. 3 and 4 of its brief. In Lear's question No. 3 (Adkins' No. 12), Lear now seeks to have this Court reconsider every factual and legal issue relating to validity, and in Lear's question No. 4 (Adkins' No. 13), Lear now seeks to have this Court reconsider every factual and legal issue relating to infringement. As shown in Points V and VI, *infra*, neither is a question presented under Rule 23-1(c) nor a "subsidiary question fairly comprised therein." As this Court has noted its

disapproval of "the practice of smuggling additional questions into a case" after certiorari is granted, *Irvine v. California* (1954), 347 U.S. 128, 129, neither of these questions should be considered. Moreover, as as will be seen in Points V and VI, factual questions cannot be reconsidered by this Court in view of the Seventh Amendment, *Chicago, Burlington etc. Rd. v. Chicago* (1896), 166 U.S. 226, 242-245. In addition, efficient judicial administration requires that in the event this Court overrules the doctrine of licensee estoppel, it should remand this case to the California Supreme Court for a ruling on validity, *Abbott Laboratories v. Gardner* (1967), 387 U.S. 136, 156, as the Anti-Trust Division concedes (p. 26).\*

For all of the foregoing reasons, the writ of certiorari should be dismissed as improvidently granted, as 28 USC §1257(3) and the established procedural rules of this Court require no less.

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\*However, if the doctrine of licensee estoppel is overturned and this court undertakes to decide the many questions relating to validity and infringement, this Court should also consider the question of the proper cut-off date for accrued royalties (Adkins' question No.5) and the alternative second cause of action (Adkins' question No. 14).



II.

THE CALIFORNIA SUPREME COURT'S CONSTRUCTION OF PARAGRAPH 2(a) IN CONJUNCTION WITH PARAGRAPH 3(g) DOES NOT ENJOIN OR RESTRAIN LEAR, EITHER BEFORE OR AFTER THE PATENT ISSUES, FROM MANUFACTURING GYROS CONTAINING ADKINS' INVENTION, BUT ONLY REQUIRES LEAR TO PAY THE AGREED ROYALTY. MOREOVER, THE LICENSE UNDER THE APPLICATION DOES NOT ANTEDATE THE PATENT GRANT, SINCE PRIOR TO ISSUANCE OF THE PATENT, THE ROYALTY IS IN EXCHANGE FOR THE DISCLOSURE OF THE IDEA, DISCOVERY AND INVENTION EMBODIED IN THE SECRET APPLICATION.

- A. The Decision Below Merely Requires Lear to Pay the Agreed Royalty if It Chooses to Use Adkins' Invention. It Does Not Require Lear to Cease Manufacturing All Gyros, nor Even Gyros Using Adkins' Invention. Nor, for That Matter, Did Lear Cease Manufacturing Gyros Using Adkins' Invention.\*

In its opinion the California Supreme Court held that Lear licensed, under paragraphs 1(b) and 2(a), the invention "disclosed or intended to be disclosed"<sup>123</sup> in the specifications of the application and agreed to pay royalties on the 2156 gyro and the steel gyros until final Patent Office action.<sup>124</sup> That court further held that

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\*Lear's arguments that (a) until any patent is held valid, every licensor violates the anti-trust laws unless the license agreement contains an unconditional termination provision, and (b) until the patent is held valid, a patentee violates the anti-trust laws by licensing the patent, will be considered in Point III, *infra*, in connection with the doctrine of licensee estoppel in order to avoid unnecessary repetition.

<sup>123</sup>A-I, 181-182, Pet. App. 18-19.

<sup>124</sup>A-I, 180, fn. 16, Pet. App. 20-21, fn. 16 on p. 17.

if a patent did issue with claims covering the invention, Lear's license automatically shifted to a license under the issued claims if they covered the gyros in issue, and Lear was obligated to continue to pay the royalty unless the patent was thereafter held invalid in a third party adjudication.<sup>125</sup> Although Lear argued that the right of termination set forth in paragraph 2(a) was unconditional, the California Supreme Court disagreed and found that the purpose of the paragraph 2(a) right of termination was to save Lear the annual minimum royalty payments required by paragraph 3(g) in the event it decided to cease using Adkins' invention in its gyros.<sup>126</sup> Thus, the court held that Lear did not and could not terminate the license agreement under paragraph 2(a) while continuously using Adkins' invention in its gyros, and was therefore required to pay the agreed royalty.\*<sup>127</sup>

Lear asserts, however, that the license and the patent are unenforceable because the foregoing construction placed upon the license agreement by the California Supreme Court results in a misuse of the patent grant in contravention of the anti-trust laws—the supposed misuse being the requirement that in order to terminate the license agreement, Lear must cease using Adkins' invention in its gyros. According to Lear, the result is somehow that the agreement is tainted with an illegality, rendering it unenforceable. The sole authority cited by Lear for this remarkable conclusion is *Apex Hosiery Co. v. Leader* (1940), 310 U.S. 469, which involves a

<sup>125</sup>A-I, 180, fn. 16, Pet. App. fn. 16, on p. 17.

<sup>126</sup>A-I, 190, Pet. App. 27.

\*Lear's obligation, of course, expires with the patent, *St. Paul Plow Works v. Starling* (1891), 140 U.S. 184.

<sup>127</sup>A-I, 191, Pet. App. 28.

sit-down strike by a union, resulting in a stoppage of interstate shipments. Since no patent and no license agreement were involved and no anti-trust violation was found, the case is hardly relevant here, much less controlling.

It is important to note that the California Supreme Court did not hold that in order to terminate the license agreement Lear must cease manufacturing all gyros or even any gyros, but held that Lear must cease "using Adkins' invention"<sup>128</sup> or "incorporating Adkins' invention"<sup>129</sup> in its gyros. Significantly, Lear refers only to "cessation of manufacture" (p. 12), which immediately suggests a requirement which may be suspect under the anti-trust laws, and ignores the fact that in no less than ten different places<sup>130</sup> the California Supreme Court states that in order to terminate under paragraph 2(a), Lear must only cease using Adkins' invention in its gyros. Thus, the agreement as construed by the California Supreme Court simply says that if Lear uses Adkins' invention, it has to pay royalties, and that if Lear wants to stop paying royalties, it has to stop using Adkins' invention. Stated differently, the agreement merely provides that Lear cannot keep both the invention and the royalties; but nothing in the agreement or the California Supreme Court's construction of it says that Lear has to stop manufacturing all, or for that matter any, gyros. No court has ever held invalid the requirement that a licensee must pay royalties for using an invention.\* From the foregoing, it

<sup>128</sup>A-I, 187-189, 190, Pet. App. 24-25, 27.

<sup>129</sup>A-I, 181, Pet. App. 18.

<sup>130</sup>A-I, 182-190, Pet. App. 19-27.

\*Both before and after Adkins joined Lear, Lear manufactured gyros which did not incorporate Adkins' invention and sold them

is obvious that the California Supreme Court's construction of the paragraph 2(a) termination clause does not in any way restrain, enjoin or prohibit Lear from using Adkins' invention in its gyros, but only requires Lear to pay the agreed royalty if it does so.

In fact, no trade or commerce was restrained, since Lear never stopped, but to the contrary, continuously manufactured gyros using Adkins' invention. The point is that Lear was not required to and did not cease manufacture of gyros using Adkins' invention. How, then, was the military injured, since it was not deprived of a single gyro and there is no evidence that Lear would have charged the military even a penny less if relieved of the obligation to pay royalties. Thus, the California Supreme Court's construction of the license agreement is a restraint only to the extent that the obligation to pay the royalty might discourage Lear's use of Adkins' invention. Consequently, the real question is whether the use of the doctrine of licensee estoppel to enforce continued payment of the royalty pursuant to the agreement violates the patent laws or the anti-trust laws, and this issue will be considered in Point III, *infra*.\*

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to the Navy and the Air Force, and may still do so. In fact, Lear can now make gyros just as accurately without using Adkins' invention by reason of precise machining techniques. In this regard, in May of 1968 Lear so stated to Adkins and gave him a gimbal with bearing cups in place which had been aligned by this machining technique and which, when tested by Adkins, were as accurately aligned as bearing cups using Adkins' invention.

\*If the agreement should be deemed to violate the anti-trust laws, Lear could not only avoid paying royalties, but also, under *Perma-Life Mufflers, Inc. v. International Parts Corp.* (1968), U.S. , might well be able to recover treble the royalties already paid—an unconscionable result hardly likely to encourage invention and licensing of inventions.

Based on the erroneous premise that the California Supreme Court's construction of paragraph 2(a) is a *complete* restraint on manufacture, Lear argues (a) that the patent laws permit injunction. (35 USC §283) against manufacture only if the patent is first held valid, and (b) that since the gyros in issue are manufactured for sale to the military,\* an inventor cannot, under 28 USC §1498, enjoin manufacture but only sue the United States for damages in the Court of Claims. The simple answer is that the California Supreme Court did not "enjoin" Lear from manufacture. Thus, whether the California Supreme Court can "enjoin" manufacture without first testing the validity of the patent need not be considered. Moreover, Adkins is not suing to enjoin manufacture, but, rather, is suing Lear for damages for breach of contract, and thus 28 USC §1498, which expressly excepts actions based on license agreements, is inapposite, *Newport News Shipbuilding & Dry Dock Co. v. Isherwood* (1925, Cir. 4), 5 F. 2d 924.

If the military truly believed that Adkins' patent was of dubious validity and the 1¼% royalty an unnecessary burden, it could have tested validity by simply having gyros using Adkins' invention manufactured by any one of Lear's many competitors. Adkins then would have been remitted to a suit against the United States in the Court of Claims, in which validity would have been an issue.

Lear's real complaint seems to be that the California Supreme Court's construction of the license agreement,

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\*Although it is not denied that some part of Lear's sales was to the military, neither Lear nor the Government can seriously assert that *all* sales were to the military, as Lear also sold gyros containing Adkins' invention for use in commercial aircraft, one of which was the French-made Caravelle aircraft.



particularly paragraph 2(a), is wrong. However, as Lear concedes (p. 23), the construction of a license agreement is purely a question of State law which this Court will not reconsider, *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46, *American Railway Express Co. v. Kentucky* (1927), 273 U.S. 269, *Walter A. Wood Co. v. Skinner* (1891), 139 U.S. 293.

**B. A License of an Idea, Discovery and Invention Disclosed in a Secret Patent Application Is Not a Misuse of the Patent Grant, Since a Trade Secret and Not Property Is the Subject of the License.**

Lear argues that if, prior to the issuance of a patent, the licensee must cease manufacture of the licensed device in order to avoid paying the royalty, this is somehow enforcement of patent rights before they exist and constitutes patent misuse. Lear fashions this argument on the rule that a patent applicant has no property right under an application, *Marsh v. Nichols, Shepard & Co.* (1888), 128 U.S. 605, and asserts that where a licensee must pay royalties under a license of the application, this is analogous to the situation in *Brulotte v. Thys Co.* (1964), 379 U.S. 29. However, in that case this Court held only that a licensor cannot extend the monopoly of the patent by exacting royalties *after* the patent expired because the device is then in the public domain and free for all to use. As this Court there recognized, at page 32, "The sale or lease of *unpatented* machines . . . would present wholly different considerations" (emphasis added). Before the patent issues an entirely different situation exists, as the invention disclosed in the patent application is not available to the public and is secret, 35 USC §122. Although the

applicant has no property right in the invention, there is nothing in either the patent laws or the antitrust laws which prohibits the inventor from licensing the secret invention as a trade secret in exchange for a royalty. A royalty agreement founded upon the disclosure of an idea, discovery or invention is purely a matter of contract governed by State and not Federal law, which neither grants a property right in the invention nor antedates the patent monopoly for the period prior to the issuance of the patent, *Hamilton v. Park McKay Co.* (1897), 112 Mich. 138, 70 N.W. 436. Neither the patent laws nor the anti-trust laws are violated where a manufacturer agrees to pay a royalty for the disclosure of an idea, discovery or invention, and it follows that a manufacturer may so agree for an invention which also happens to be described in a pending patent application, *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827. In fact, licensing the disclosure of an idea, discovery or invention, whether before or during the pendency of a patent application, is entirely consistent with the patent clause (Art. I, Sec. 8, Cl. 8), since it promotes the progress of science and the useful arts by allowing the device to be manufactured and marketed at the earliest date, rather than waiting for the years normally consumed by the prosecution of a patent application. Thus, in the case at bar, the agreement under which Lear initially licensed the invention disclosed or intended to be disclosed in the specifications and reserved the right to terminate the license agreement if no patent issued, in no way contravenes either the patent laws or the anti-trust laws, since the license under the application is not based on any patent right but on the disclosure of the idea, discovery and invention.

It has long been settled law that an inventor may sell or license his invention whether or not it is patented, and license agreements often include a license under the patent application. See, e.g., *Automatic Radio, supra*, *Gayler v. Wilder* (1850), 10 How. 509, *Brush Elec. Co. v. California Elec. Light Co.* (1892, Cir. 9), 52 Fed. 945, 963, *Keystone-Type Foundry v. Fastpress Co.* (1921, Cir. 2), 272 Fed. 242, *Boston v. Boston Stock Car Co.* (1898), 171 Mass. 437, 50 N.E. 1029, R. Ellis, *Patent Licenses*, §§5, 99 (3rd Ed., 1958). In fact, the patent laws expressly permit sales of patent applications, 35 USC §§118, 152, *Hendrie v. Sayles* (1878), 98 U.S. 546, and consequently licensing a patent application, which is a lesser included right, is entirely consistent with the patent laws, *B. F. Gladding & Co. v. Scientific Anglers* (1957, Cir. 6), 245 F. 2d 722, *Fur Grooving & Shearing Co. v. Turano* (1941, D.C., S.D., N.Y.), 39 F. Supp. 877.

None of the cases cited by Lear has anything to do with a license of an invention disclosed in an application under which the licensee agrees to pay a royalty for the disclosure of a secret idea, discovery and invention. Suffice it to say that the cases Lear cites involve either price fixing, *Sola Electric Co. v. Jefferson Electric Co.* (1942), 317 U.S. 173, *Katzinger Co. v. Chicago Metallic Mfg. Co.* (1947), 329 U.S. 394, or "tie-ins," *Mercoird Corp. v. Mid-Continent Investment Co.* (1944), 320 U.S. 661, or collection of royalties after the patent's expiration, *American Securit Company v. Shatterproof Glass Corp.* (1959, Cir. 3), 268 F. 2d 769, or the suppression of competing products, *National Lockwasher Co. v. Garrett* (1943, Cir. 3), 137 F. 2d 255, *McCullough v. Kammerer Corp.* (1948, Cir. 9), 166 F. 2d

759, or restrictions on the use of the product, *United States v. Univis Lens Company* (1942), 316 U.S. 241, and are therefore not in point.

Lear obviously asserts its "misuse" arguments at the outset because it hopes that if a misuse exists, the agreement is unenforceable irrespective of the validity of the patent, but there is no authority from this or any other court, and no valid reason which supports Lear's position.

### III.

**THE DOCTRINE OF LICENSEE ESTOPPEL DOES NOT CONFLICT WITH EITHER THE PATENT LAWS OR THE ANTI-TRUST LAWS, BUT IS NECESSARY TO UPHOLD THE SANCTITY OF PRIVATE CONTRACTS, TO ENFORCE THE POLICY OF THE PATENT LAWS, AND TO PROTECT INVENTORS WHO HAVE RELIED ON THE DOCTRINE.**

**A. The Doctrine of Licensee Estoppel Is Essential to Uphold the Sanctity of Private Contracts Where a Conclusively Valid Patent Is Not Part of the Bargain.**

The doctrine of licensee estoppel does no more than foreclose a party who accepts a license from avoiding his bargain at a later date by asserting that the patent is invalid. Although the doctrine has become known as "estoppel to question validity," it is more accurately described as estoppel by contract to avoid a bargain by resort to a defense which was and is irrelevant to the bargain.

In the typical situation, the licensee, whether under a patent application or an issued patent, knows with precision the nature of the invention and has an op-

portunity to make its own determination, simply by searching the prior art, as to whether the invention can be or is the subject of a valid patent. After making this determination, the licensee, of course, has a free choice whether to take a license and pay a royalty therefor or reject the license, use the invention and risk a suit for infringement. Having made the free choice to enter into a license agreement, the licensee, under pure principles of contract law, should not be permitted at a later date to avoid its bargain, *Pope Mfg. Co. v. Owsley* (1886), 27 Fed. 100, especially where the licensee continues without interruption (as is Lear in the case at bar) to make and sell products incorporating the invention under the protection of both the patent and the license agreement. As this Court said in *Kinsman v. Parkhurst* (1855), 18 How. 289, at 292-293:

“ . . . we are all of the opinion, that under the agreement . . . the invalidity of the patent would not afford a bar to the complainant's right to an account. Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think the defendants are estopped from alleging that invalidity. They have made and sold these machines under the complainant's title . . . and they can no more be allowed to deny that title and retain the profits to their own use, than an agent, who has collected a debt for his principal, can insist on keeping the money, upon an allegation that the debt was not justly due.



"The invalidity of the patent does not render the sales of the machine illegal, so as to taint with illegality the obligation of the defendants to account" (emphasis added).

In the case at bar, Lear knew of Adkins' broad experience in the gyro industry and recognized the industry-wide need, created by the advent of jet aircraft, for a more accurate, low-cost gyro.<sup>131</sup> Consequently, on December 29, 1951, Lear entered into a one-page letter agreement with Adkins whereunder Lear agreed to pay Adkins "a mutually satisfactory royalty" for all "ideas, discoveries and inventions" relating to gyros which Adkins disclosed to Lear and Lear used.<sup>132</sup> The agreement made no mention of either patents or patentable inventions, but, to the contrary, was simply an agreement to pay Adkins for any ideas, discoveries and inventions which he disclosed to Lear and which Lear used, irrespective of whether those ideas, discoveries and inventions were patented or patentable. Pursuant to and in reliance upon this agreement, Adkins associated himself with Lear on January 2, 1952.<sup>133</sup> In mid-1952,<sup>134</sup> after considerable experimentation, Adkins conceived of and reduced to practice his invention for the more precise alignment of gyro bearings and fully disclosed it to Lear.<sup>135</sup> After over one year of unsuccessful experimentation,<sup>136</sup> which did not commence until after Adkins had disclosed his invention, Lear began using Adkins' invention in its steel

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<sup>131</sup>See fn. 12.

<sup>132</sup>See fn. 1.

<sup>133</sup>See fn. 1.

<sup>134</sup>See fn. 37.

<sup>135</sup>See fn. 42.

<sup>136</sup>See fns. 45, 46, 47.

gyros.<sup>137</sup> However, immediately after Adkins' disclosure, Lear began negotiating with Adkins for a more formal agreement.<sup>138</sup> After approximately three years of negotiation, the agreement of September 15, 1955 resulted.<sup>139</sup> Under this agreement, it was stated that "this agreement cancels and supersedes the Agreement . . . dated December 29, 1951."<sup>140</sup> Pursuant to other provisions, Lear agreed to pay Adkins a royalty of 1¼% until final Patent Office action on his application and to continue to pay that royalty if a patent issued with claims covering the invention described in the specifications of the patent application.<sup>141</sup> It is thus obvious from both the relationship of the parties and the terms of the agreement that Lear and not Adkins desired a formal patent license agreement, not because Lear was concerned about or was bargaining for a conclusively valid patent, but, rather, because Lear envisioned the new agreement as a possible method of reducing its far broader liability under the letter agreement of December 29, 1951. Thus, Lear inserted in paragraph 6<sup>142</sup> that if no patent was issued by the Patent Office, or if the patent was subsequently held invalid, Lear's obligation to pay further royalties ceased. Had Lear desired a conclusively valid patent rather than a presumptively valid patent, it could easily have reserved the right in the agreement either to terminate the agreement while continuing to manufac-

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<sup>137</sup>See fns. 48, 49.

<sup>138</sup>See fn. 61.

<sup>139</sup>A-II, 1, Ex. 8.

<sup>140</sup>A-II, 15, Pet. App. 144.

<sup>141</sup>See fn. 125.

<sup>142</sup>A-II, 11, Pet. App. 138.

ture covered gyros or to contest the validity of the patent. However, since conclusive validity of the patent was not part of the bargain, Lear should not be able to challenge the validity of the patent in an effort to avoid paying for what it in fact bargained for, received and used, namely:

1. The exclusive, uncontested and immediate right to use the secret idea, discovery and invention until final Patent Office action;

2. The right to cease payment of "further royalties" if no patent issued, or if a patent issued with claims which did not cover the gyros in issue;

3. The exclusive right to manufacture the device covered by the claims if a patent issued, which included the not inconsiderable right to label the gyros as patented;

4. The protection of a presumptively valid patent (which Lear concedes discourages manufacture by others);

5. The cancellation of the letter agreement of December 29, 1951;

6. Freedom from suit under the letter agreement of December 29, 1951; and

7. Freedom from suit for patent infringement.

In short, the case at bar is different from the typical situation where a patentee forces an infringer into accepting a license under threat of suit, since here Adkins was employed to invent the very device which Lear is using, in accordance with the letter agreement, under which patentability was totally irrelevant, and which

agreement was replaced by the license agreement, under which conclusive validity of an issued patent was also irrelevant.

Just as in the case of *Kinsman v. Parkhurst* (1855), 18 How. 289, the alleged invalidity of the patent in no way affects either the bargain of the parties based on the consideration enumerated above, or the profits Lear has already realized from completed sales of gyros containing Adkins' invention. In fact, invalidity of Adkins' patent would not even affect Lear's future profits, since they depend, in large part, not upon the protection of a conclusively valid patent, but, rather, upon the fact that Lear began to incorporate the invention in its gyros in mid-1952, when the invention was still secret, and thereby gained an invaluable time advantage equal to the tooling and manufacturing time over its competitors. This tooling and manufacturing time consumed almost three years, the first sale taking place after January 1, 1955,<sup>143</sup> and allowed Lear to become the first manufacturer to market a completed instrument containing Adkins' invention. This advantage has permitted Lear to remain the sole manufacturer of gyros incorporating Adkins' invention, and resulted in Lear's amassing sales of over \$67,000,000.00 from January 1, 1955 to May 31, 1963.<sup>144</sup> Therefore, since Lear has already reaped the profits derived from the use of Adkins' invention, and will continue to do so whether or not the patent is valid, invalidity is not a defense and Lear should be required to pay the agreed royalty. *United States v. Harvey Steel Co.* (1905), 196 U.S. 310, *Baker Oil Tools, Inc. v.*

<sup>143</sup>A-II, 7, Pet. App. 134.

<sup>144</sup>Exs. 48 and 49.

*Burch* (1934, Cir. 10), 71 F.2d 31. As the court said in the *Baker* case, *supra*, at page 37: "... there is the undisputed fact that Baker used the Burch patents, through the first three critical years, to frighten off competitors and to build up a business that now approaches a monopoly. Having done this, with full and exact knowledge of the patent situation, it may not cast Burch off when it conceives that his patents have served their purpose. During these critical years, Baker's conduct deprived Burch of an opportunity to market his patents with other manufacturers."

In this case the license was exclusive from mid-1952 until August 15, 1958. During this period Adkins could not license others or use the invention himself. Having gained a great competitive advantage over other manufacturers during this period, Lear, at its election, permitted the license to become non-exclusive on August 15, 1958, as no further exclusive protection was necessary. As a result, Lear should not now be heard to say that it received nothing except freedom from a patent infringement suit, which it no longer desires. Thus, the Government is wrong when it states, on page 23, that the license was non-exclusive, and correct when it states, on page 24, that "from the standpoint of fair dealing," an exclusive licensee is different since the patentee "gave up other licenses or business arrangements."

Therefore, in this case the doctrine of licensee estoppel is essential to preserve the sanctity of a private contract by preventing Lear from attempting to avoid its obligation to pay for what it in fact bargained for and received by resort to an alleged defense which was and is completely irrelevant to the bargain.



Since validity cannot affect the bargain between Adkins and Lear, it is not really necessary to consider Lear's additional argument that the doctrine of estoppel is not based on the elements required for an equitable estoppel, and that the analogy to estoppel by deed and estoppel of a tenant to question his landlord's title is imperfect. However, even Lear's argument on these issues is incorrect. The analogy to estoppel by deed was discussed in *Westinghouse Co. v. Formica Co.* (1924), 266 U.S. 342, which concededly involved an assignment and not a license. However, where the license is exclusive, the licensee receives everything he would have received under an assignment except only title, that is, the exclusive right to use the invention. Thus, just as the assignor should not be able to defeat the rights granted to the assignee under the contract, so also the licensee should not be permitted to say he received nothing when in fact he received the exclusive right to use the invention under a presumptively valid patent. The analogy to the landlord and tenant situation is, of course, more perfect. The tenant who has possession of the premises has received precisely what he bargained for, namely, the use of the premises, and should pay for it. If he is evicted by a third party who in fact has title, his obligation ceases. A licensee of a patent, whether exclusive or non-exclusive, similarly receives precisely what he bargained for, namely, the right to use the invention. If the license is exclusive, the licensee presumably bargains also for the exclusive use of the invention and the protection of a presumptively valid patent, there being no warranty that the patent is in fact valid unless it is expressly so stated in the license agreement, *Headley Good Roads Co. v. Bar-*

*ber Asphalt Paving Co.* (1925, Cir. 3), 292 Fed. 119, Ellis, Patent Licenses, 244, §217, 3rd Ed. (Deller's); 1958.\* Until the licensee is evicted by a decision rendered in third party adjudication that the patent is invalid, the licensee also receives precisely what he bargained for. Just as the tenant cannot defend on the ground that someone else might have title to the property, so, also, the licensee cannot defend on the ground that someone else might make the patented device and thereby evict him from exclusive use. The fact that the tenant uses realty and the licensee uses personalty, or an "intangible," as Lear prefers to call it, is a difference without a distinction. In both cases the tenant or the licensee has received all that he bargained for and should pay for it.

If the license is non-exclusive, presumably the licensee bargains for the right to use the invention free from suit. Although Lear and the Government argue that if this is the consideration, it is severable when the licensee decides he would rather be sued than pay the royalty, the obvious answer in this case is that Lear's license was exclusive for six years, and became non-exclusive at Lear's election when it no longer needed exclusive protection, and was exclusive in fact thereafter. Thus, the original consideration enumerated above, and which is not severable, must control this case. In this regard, it has long been the rule that a partial failure of non-severable consideration does not excuse the defendant's performance, *United States v. Harvey Steel Co.* (1905), 196 U.S. 310, *Patterson Bal-*

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\*In paragraph (B) of the license agreement Adkins warranted only that "to the best of his knowledge and belief," he was the owner of the invention disclosed or intended to be disclosed in his application.

*lagh Corp. v. Byron Jackson Co.* (1944, Cir. 9), 145 F. 2d 786, *Del Riccio v. Photochart* (1954), 124 Cal. App. 2d 301. Moreover, having made its bargain, Lear should not be permitted to force Adkins at a later date to incur the expense of patent litigation when the validity of the patent played no part in the bargain and is still irrelevant to the bargain.

Although Lear also argues that the elements of an equitable estoppel are lacking, the converse is true. Equitable estoppel, commonly referred to as estoppel by conduct, is based on the premise that where a defendant makes certain representations to a plaintiff upon which the plaintiff relies, the defendant should not be permitted and is therefore estopped to avoid the consequences of those representations, *Jones v. United States* (1877), 96 U.S. 24, 29, Restatement of Contracts, §90. In the case at bar, Lear, in the license agreement, represented to Adkins that in exchange for the cancellation of the letter agreement of December 29, 1951, Lear would pay royalties until final Patent Office action and thereafter if a patent issued. Since the letter agreement of December 29, 1951 is novated and cannot now be used, *Aetna Casualty & Surety Co. v. Bettens* (1953, D.C., Cal.), 111 F. Supp. 111, 113. (applying California law), Lear should not be permitted to escape from those representations by asserting that the patent is invalid, but should be estopped to do so, as Adkins obviously relied on Lear's representations in executing the license agreement, *Brand Plastics Co. v. Dow Chemical Co.* (1967, D.C., Cal.), 154 USPQ 140.

**B. There Is a Public Policy in Favor of Enforcing Contracts.**

In this case Lear sought to avoid its obligation to pay royalties under the contract by challenging the validity of Adkins' patent. Having been frustrated in its attempt to avoid royalty payments by challenging the validity of the patent, Lear now argues that the doctrine which prevented it from challenging validity violates the policies of the patent and anti-trust laws.

This position would seem to conflict with the line of cases culminating in *Kelly v. Kosuga* (1959), 358 U.S. 516. In the *Kelly* case, a buyer sued to recover the unpaid balance due on a sale contract. The seller alleged that the sale was part of an agreement which violated the Sherman Act. This Court rejected the seller's defense, stating, at pages 518-520:

"As a defense to an action based on contract, the plea of illegality based on violation of the Sherman Act has not met with much favor in this Court. This has been notably the case where the plea has been made by the purchaser in an action to recover from him the agreed price of goods sold.

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"... the federal courts should not be quick to create a policy of nonenforcement of contracts beyond that which is clearly the requirement of the Sherman Act.

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"Past the point where the judgment of the Court would itself be enforcing the precise conduct made unlawful by the Act, the courts are to be guided by the overriding general policy, as Mr. Justice

Holmes put it, 'of preventing people from getting other people's property for nothing when they purport to be buying it.' "

**C. Absent Any Patent Misuse, the Doctrine of Licensee Estoppel Is Entirely Consistent With the Anti-Trust Laws and Is Essential to Effectuate the Policy of the Patent Laws.**

1. **The Doctrine of Licensee Estoppel Effectuates the Policy of the Patent Laws in a Manner Which Does Not Conflict With the Anti-Trust Laws.**

Lear and the Government both argue that the doctrine of licensee estoppel conflicts with the patent and the anti-trust laws, in that if the patent is in fact invalid, the doctrine perpetuates an invalid monopoly and imposes the burden of the royalty on the public. This argument fails, of course, if the sales price fixed for the product has nothing to do with the royalty, but, rather, is set either to meet competition or to exact what the traffic will bear. However, assuming, *arguendo*, that the royalty is in fact reflected in the sales price, the question is not as simple as Lear and the Government state it.

The real question is whether an *unreasonable* burden is imposed on the public which Congress intended to prevent, *United States v. United States Gypsum Co.* (1948), 333 U.S. 364, 400-401. The patent laws, enacted pursuant to express Constitutional authorization, are, of course, an exception to the anti-trust laws. The anti-trust laws should not be used to either destroy or weaken the patent system, but, rather, the line between the two should be drawn to give effect to the underlying policy of both. The patent laws provide that an issued patent is presumed to be valid, 35 USC §282.



They also provide that "patents shall have the attributes of personal property," 35 USC §261. One of these attributes is the right to license others to use the patented device in exchange for a royalty; *General Talking Pictures Corp. v. Western Electric Co.* (1938), 305 U.S. 124. The right to license the patent and collect the royalty is necessary to give the patent grant substance and value. See *Westinghouse Co. v. Formica Co.* (1942), 266 U.S. 342, 348. The collection of reasonable royalties under the license of a presumptively valid patent (the validity of which has not been tested) cannot and does not conflict with the policy of the anti-trust laws, *United States v. National Lead Co.* (1947), 332 U.S. 319, *Blount Mfg. Co. v. Yale & Towne Mfg. Co.* (1909, D., Mass.), 166 Fed. 555, 557. To the contrary, the right to receive a royalty is an absolute right under the patent laws precisely because the patent is presumptively valid and is property. Since the collection of the royalty does not violate the anti-trust laws and is essential to give the patent grant value and substance, it follows that estopping the licensee from contesting validity in order to defeat that royalty cannot violate the anti-trust laws; but, rather, is also essential to enforce the underlying policy of the patent laws, *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827, *Rail-Trailer Co. v. ACF Industries, Inc.* (1966, Cir. 7), 358 F. 2d 15, *Steiner Sales Co. v. Schwartz Sales Co.* (1938, Cir. 10), 98 F. 2d 999, *Foster Wheeler Corporation v. Furnace Eng. Co.* (1942, D.C., N.Y.), 46 F. Supp. 867, *Philadelphia Creamery S. Co. v. Davis & Rankin Building & M. Co.* (1896, Cir. Ill.), 77 Fed. 879. As this Court held in the *Hazeltine* case, *supra*, where there is no misuse of the patent, the

application of the doctrine of estoppel in aid of the collection of a reasonable royalty does not violate either the patent laws or the anti-trust laws because the "royalty provision . . . creates no restraint of competition beyond the legitimate grant of the patent, [as] the right to a patent includes the right to market the use of the patent at a reasonable return." As this Court also stated in the *Hazeltine* case, *supra*, unless there is a showing that the license agreement or the practices under it are "a misuse of patents or contrary to public policy," the "general rule" of licensee estoppel should be applied.

Abolition of the doctrine of licensee estoppel would have the effect of destroying a substantial part of the patent system, which is designed to promote science and the useful arts by granting to an inventor a limited monopoly in exchange for the free public use of the invention thereafter. Individual inventors, as distinguished from corporations and other business entities, ordinarily do not have the resources to manufacture products incorporating their inventions. Consequently, they must either assign their patent or license their patent to an entity, usually a corporation, which has the financial ability to manufacture. When an invention is first discovered, or even when the patent issues, it is difficult, if not impossible, to determine its fair value, which depends on the number of devices embodying the invention which can be sold and the price which can be obtained. As a result, it is difficult for an inventor and a manufacturer to agree at the outset on a fixed price, and the only sensible resolution from the standpoint of both is a royalty on each device which is sold. If the manufacturer can, after agreeing to pay the royalty, avoid paying it by challenging the validity of the pat-

patents there involved. *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174, involved a conspiracy to restrain trade and monopolize an industry by collusive settlement of interference proceedings and subsequent misuse of the patent. In *Mercoide v. Mid-Continent Investment Co.* (1944), 320 U.S. 661, the Court held only that assuming that a patent was valid, it still could not be used to protect unpatented material. The issue of licensee estoppel was not even discussed. Thus, Lear's and the Government's reliance on the statement that the public interest is dominant in the patent system, although not disputed, cannot be read out of context to make it appear that the public interest requires abolition of the doctrine of licensee estoppel.

Thus, we return to the case of *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827, where this Court, after first finding no patent misuse and distinguishing *Katzinger* and *MacGregor* as price fixing cases and *Mercoide* as a "tie-in" case, held that the licensee was indeed estopped under the general rule to challenge the validity of the licensed patents. Although Lear attempts to distinguish the *Hazeltine* case on the ground that the licensee pleaded only a partial failure of consideration, the opinion of this Court contains no discussion of that issue. Similarly, the Government's charge that this Court did not consider policies or precedents (p. 21) is unfounded, in that this Court, in rejecting the Government's broad attack on the doctrine of licensee estoppel, reaffirmed the doctrine based on the patentee's right under the patent laws to collect a royalty because, absent any patent misuse, the doctrine does not conflict with the anti-trust laws.

The Government does not dispute that this is the true holding of the *Hazeltine* case, and in the case at bar is only advancing the same arguments it made and lost in *Katzinger*, *MacGregor* and *Hazeltine*. As aptly stated in 4 Toulmin's Anti-Trust Laws, 212, §8.2, "... the Department of Justice disagrees with the Supreme Court and continues to bring suit on the same issues, hoping, with the change of personnel in the Court, and with new records before the Court, ultimately to prevail in its social and economic views."

*Hazeltine* is consistent with this Court's holding in *Kelly v. Kosuga* (1959), 358 U.S. 516, that "the overriding general policy . . . of preventing people from getting other people's property for nothing when they purport to be buying it" prohibits a defendant, when sued for breach of contract, from resorting to the anti-trust laws as a defense, unless enforcement of the contract would also enforce the precise conduct made unlawful by the Sherman Act.

Thus, the *Hazeltine* case, *supra*, and *United States v. National Lead Co.* (1947), 332 U.S. 319, refutes Lear's argument that it violates the anti-trust laws to license a patent without including an unconditional termination clause, and its refinement of that argument that it violates the anti-trust laws to license a patent before it is held valid, as in both cases licenses of both patents and patent applications were held not to violate the anti-trust laws where validity had not been adjudicated.

If a licensor of a presumptively valid patent violates the anti-trust laws by receiving royalties when the patent is in fact invalid, or by licensing the patent before validity is adjudicated, then every licensor may be subject to a civil anti-trust suit by his licensee to re-

cover threefold the royalties paid (see *Perma-Life Mufflers, Inc. v. International Parts Corp.* (1968), ..... U.S. ....), and may also be subject to criminal liability in a suit brought by the United States. Certainly, Congress did not intend this consequence, which would effectively prohibit all license agreements until the patent was held valid by this Court, or by the courts of last resort in every jurisdiction.

Nor can Lear and the Government successfully argue that the public suffers if Lear has to pay Adkins accrued royalties because it has passed that royalty cost along to its customers in the form of an increased sales price.\* Lear has already collected the royalty from the public for past sales, and to allow Lear to retain this royalty would unjustly enrich Lear at the expense of Adkins, who is in justice and equity entitled thereto, *Kinsman v. Parkhurst* (1955), 18 How. 289.

Although both Lear and the Government (p. 9) assert that Adkins was paid a fair salary for the invention and the royalty is a windfall, this ignores the first agreement, under which the royalty was payment for the creation and disclosure of invention, and Adkins' testimony in his deposition that because of the first agreement, he was not paid the normal salary which "that job would have called for," but, rather, as "Bill Lear termed it . . . 'coffee and cake money.'"<sup>145</sup>

As for future sales, the situation would be no different had Lear agreed to pay for the disclosure of the idea absent any patent, i.e., precisely as Lear did in the letter agreement of December 29, 1951. Lear

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\*There being no evidence that Lear reduced its price after it refused to pay royalties to Adkins.

<sup>145</sup>Dep. 194.



would be obligated to continue payments, *O'Neil v. E. I. duPont de Nemours & Co.* (1919), 21 Del. Ch: 76, 106 A. 50, and the public, which is ultimately receiving the benefit of the product, is being fairly charged therefor. If the royalty to Adkins were an unfair burden on the public, then Lear's profit over and above that royalty is an equally unfair burden. In short, the public is benefiting from the invention and is in fact receiving a greater benefit because it is patented, for the reason that after seventeen years it will be in the public domain, free of both patent protection and the license agreement.

Where, as in this case, the licensee freely enters into a license agreement for a reasonable royalty, and the true basis of the bargain is the disclosure of the invention in exchange for the right to use it, it cannot be said that the royalty imposes an unfair burden on the public. Rather, to the extent that the royalty increases the sales price, the public is paying a reasonable price for something it otherwise would not have. There is little, if any, difference in the inventor's collecting a royalty for creation and the manufacturer's collecting a profit from manufacture.

It is therefore submitted that under all of the facts of this case, the rule of licensee estoppel does not unfairly burden commerce and does not preserve an invalid monopoly, since the monopoly of the patent is not the basis of the bargain and the doctrine of licensee estoppel is being applied not to preserve the monopoly but to enforce the bargain of the parties and to preserve to Adkins the substance and value of his issued patent.

ent, assigning and licensing of patents, which has been recognized as the best way to implement patent rights from the public point of view (see Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 Yale L. J. 267 (1966)), will become a thing of the past. This would leave the inventor with only the right to sue for infringement, which is a notoriously expensive and protracted proceeding. Thus, unless the individual inventor knows that he can collect the agreed royalty by resort to the doctrine of estoppel, he can look forward only to expensive litigation which he might not be able to afford and might or might not win. This would clearly discourage the individual inventor from even trying to invent something new and useful, and would subvert the policy of the patent clause (Art. I, Sec. 8, Cl. 8), which is to "promote the progress of science and useful arts. . ." In addition, every inventor who has not yet applied for a patent and who knows that a licensee could at any time attack the validity of his patent would be wise to forego applying for a patent and keep his invention a trade secret unknown to the world for as long as possible by either secretly practicing the invention or by entering into a contract for payment for the disclosure of the unpatented invention, in which case the purchaser would do the same thing. This would also subvert the basic intent of the patent system, which is designed to encourage inventors to disclose their inventions and reward them for a limited period in exchange for the free right of the public to use the invention thereafter, *Brenner v. Manson* (1966), 383 U.S. 519.

2. This Court's Decision in the Hazeltine Case Affirming Licensee Estoppel Is Not in Conflict With Other Decisions of This Court.

Both Lear's and the Government's reliance on *Sola Electric Co. v. Jefferson Electric Co.* (1942), 317 U.S. 173, *Katzinger Co. v. Chicago Metallic Mfg. Co.* (1947), 329 U.S. 394, and *MacGregor v. Westinghouse Electric & Mfg. Co.* (1947), 329 U.S. 402, is totally misplaced. In all three cases the license contained a price fixing clause, which constituted a *per se* violation of the anti-trust laws unless the patent was valid. In such circumstances the public interest obviously requires that the licensee may test the validity of the patent. Therefore, Lear's quotation from *Katzinger* (p. 36) that the "way should be kept open for 'interested persons' to challenge validity" cannot be read out of context to apply to situations where no misuse of the patent exists. Similarly, Lear's and the Government's reliance on *Pope Mfg. Co. v. Gormully* (1892), 144 U.S. 224, is equally misplaced, in that both overlook the fact that this Court was not there considering the doctrine of licensee estoppel in the same context as it exists in the case at bar. The *Pope* case involved an agreement wherein the licensor licensed certain patents, fixed the licensee's sale price, prohibited the licensee from using other patents owned by the licensor, and forbade the licensee from contesting the validity of any of the licensor's patents. Although this Court considered whether the provisions not to contest validity violated public policy, it did so in this peculiar factual setting and did not decide that issue but affirmed the judgment denying an accounting and an injunction on the sole ground that equity would not enforce an unconscionable and oppressive agreement. Thus,

the *Pope* case was merely the forerunner to *Sola, Katzinger and MacGregor*, and does not stand for the proposition that licensee estoppel without any patent misuse violates the anti-trust laws.

In *Scott Paper Co. v. Marcalus* (1945), 326 U.S. 249, and *Westinghouse Co. v. Formica Co.* (1924), 266 U.S. 342, this Court in both cases estopped the defendant from contesting validity and held only that the defendant could resort to an expired prior art patent to show that he was building his device solely according to the teachings of that patent. This Court recognized in both cases that although the public interest in free use of expired patents requires this result, it also recognized that estoppel to question validity was not subject to the same considerations. Thus, the Government is wrong when it says, at pages 15-16, that the estoppel doctrine forecloses Lear's "free use of a technology" which is in the public domain, since Lear can always attempt to show that it is building the gyros in issue solely according to the teachings of a prior art patent and thereby avoid the royalty payments. Consequently, extraction of quotations from these cases on the issue of infringement, indulged in by both Lear and the Government, which are not applicable to the issue of estoppel to question validity, are not only misleading but also not in point.

In the *Hazeltine* case, *supra*, this Court recognized that the doctrine of licensee estoppel supports the policy of the patent laws, and that the anti-trust laws do not affect the doctrine unless the doctrine is being used to enforce some "misuse" or extension of the patent grant. The doctrine has been settled law since this Court's decision in *Kinsman v. Parkhurst* (1855), 18 How. 289.

As will now be shown, the remaining cases relied upon by Lear and the Government are not inconsistent but rather entirely consistent with *Hazeltine*, in that they either fix the limits of the proper use of the patent grant or carve out exceptions to the doctrine of licensee estoppel in situations where the license agreement extends the use of the patent grant in a manner which would constitute a misuse of the patent grant absent a valid patent.

*Sears, Roebuck & Co. v. Stiffel Co.* (1964), 376 U.S. 225, and *Compco Corp. v. Day-Brite Lighting Inc.* (1964), 376 U.S. 234, cited by both Lear and the Government, are completely distinguishable. In both cases this Court went no further than to abolish *State* unfair competition "passing off" theories which granted a property right to the plaintiff *after* the patent had been held invalid and thereby prevented copying by the defendant. *Sears* and *Compco*, of course, did not involve the doctrine of licensee estoppel. In fact, the rationale of *Sears* and *Compco* is precisely the same as *Scott* and *Westinghouse*, and hold only that once a patented device falls into the public domain, either by expiration of the patent grant or a holding of invalidity, anyone may copy it. In this case, however, the patent has not been held invalid (the trial court's opinion being a nullity just as if it had never existed, *Ponce v. Marr* (1956), 47 Cal. 2d 159), is presumptively valid, and is also property under the Federal patent laws, which require that a licensee be estopped to question validity in order to preserve the substance and value of the patent grant to the patentee.

The remaining cases cited by both Lear and the Government also concern misuse of the patent or



**D. Judicial Abolition of the Doctrine of Licensee Estoppel Would Affect Thousands of Outstanding License Agreements, and if It Is to Be Abolished It Should Be Done Prospectively by Congress.**

Judicial abolition of this well-established doctrine after more than one hundred years of existence\* would indeed have grave consequences. Every licensee (who is presumed to contract with reference to the doctrine of estoppel, *United States v. Harvey Steel Co.* (1905), 196 U.S. 310) would automatically be granted an option either to pay the agreed royalty in accordance with his bargain or seek to avoid his bargain on the ground that the patent is invalid. If the licensee elects the latter course and the patent is held to be invalid, the licensee has thereby effectively breached his contract under

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\**Kinsman v. Parkhurst* (1855), 18 How. 289, *Dale Tile Manufacturing Co. v. Hyatt* (1888), 125 U.S. 46, *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827. In addition to these cases, see, e.g., *Baker Oil Tools, Inc. v. Burch* (1934, Cir. 10), 71 F. 2d 31, *United Engineering & Foundry Co. v. Cold Metal Process Co.* (1934, Cir. 3), 68 F. 2d 564, *Chadeloid Chemical Co. v. Charles McAdam Co.* (1924, Cir. 2), 298 Fed. 713, 716 (dictum), *Chicago & A. Ry. Co. v. Pressed Steel Car Co.* (1917, Cir. 7), 243 Fed. 883, 887, *Platt v. Fire-Extinguisher Mfg. Co.* (1894, Cir. 3), 59 Fed. 897, 901, *Hall Laboratories v. National Aluminate Corp.* (1955, Cir. 3), 224 F. 2d 303, *Moore v. National Water-Tube Boiler Co.* (1897, Cir. N. J.), 84 Fed. 346, *Malligan v. Lalance & Grosjean Mfg. Co.* (1884), 21 Fed. 570, 572, Toulmin, *Handbook of Patents*, p. 513 (2d Ed., 1954), Rivise and Caesar, *Patentability and Validity*, p. 21 (1936), Ellis, *Patent Licenses*, §225 (3rd Ed., 1958). Licensee estoppel is also settled law in England; see Terrell and Shelley on the Law of Patents, p. 228 (1961), Fletcher Moulton on Patents (1913).

In an analogous area, licensees who have concluded a suit similar to this one with a consent decree have been unable to avoid later royalty payments even when the patent was later declared invalid in a suit involving a third party. See, e.g., *Lehman Co. of America v. Appleton Toy & Furniture Co.* (1945, Cir. 7), 148 F. 2d 988, *E. Ingraham Co. v. Germanow* (1925, Cir. 2), 9 F. 2d 912.

sanction of law. Although it is true that the licensee risks the statutory measure of damages for infringement if the patent is held to be valid, the election of whether to sue for the contractual royalty or the statutory measure of damages belongs to the licensor, not the licensee, *St. Paul Plow Works v. Starling* (1891), 140 U.S. 184. The abolition of the doctrine of licensee estoppel would render almost every existing patent license agreement (and there are doubtless thousands in existence) uncertain if it is subject to avoidance at any time at the election of the licensee, and would promote litigation concerning the validity of the patent in a situation where the parties have agreed at the outset to avoid such litigation. As the First Circuit held in *Automatic Radio Mfg. Co. v. Hazeltine Research* (1949, Cir. 1), 176 F. 2d 799, "It is not apparent to us that the public interest would be served by rendering such commonsense business settlements nugatory, which would be the result of a ruling that the licensee could reopen the issue of validity when sued for the stipulated royalty." Had a licensor known that the licensee could at any time challenge validity and thereby perhaps avoid his bargain, the licensor could have protected himself in many ways. First, he could have sold or licensed the invention as a trade secret, in which case validity would be irrelevant. Second, he could have exacted a higher royalty to compensate for the risk that invalidity would defeat his bargain. And third, he could have provided that if the licensee challenged validity and lost, the licensee would have to pay attorney's fees and other non-recoverable costs.

In this case the situation is even more aggravated. Had Adkins known that Lear could challenge the valid-

ity of his patent, he obviously would not have entered into the license agreement but would have enforced the letter agreement of December 29, 1951.

The doctrine of licensee estoppel has been the law of the land since this Court's decision in *Kinsman v. Parkhurst* (1855), 18 How. 289, and has been continuously reaffirmed by this Court. The impact of a decision retroactively overruling licensee estoppel on existing and future business relationships cannot be accurately estimated by this Court. How many license agreements are now in existence, how the network of business relationships built on licensee estoppel would be affected, whether the licensing of patents and the use of the patent system would come to an end, can only be determined by public hearings conducted by Congress. Moreover, Congress can act prospectively if it determines that licensee estoppel is inimical to a healthy and functional patent system. On the other hand, Congress might conclude that abolishing licensee estoppel would have disastrous economic consequences and would destroy the patent system. In this regard, although the patent laws have gone through many minor amendments and one major change since 1855, Congress has not abolished the doctrine of licensee estoppel, even though several bills, all in the form of amendments to the Clayton Act, were introduced in 1942 (H. R. 7713, S. 2730), 1943 (H. R. 3874) and 1945 (H. R. 97), and identical bills were introduced in both houses of Congress in 1945 and 1946 (H. R. 3462, S. 2482) to abolish the doctrine. Hearings were held on one such bill (1945, H. R. 97), where the Justice Department was the principal supporter and opposition was voiced by a broad range of interests, including the Commis-

sioner of Patents, corporations, patent law associations and members of Congress. Disastrous consequences were predicted for the quality of invention and the effect on the patent system and the network of business relationships built on patent license agreements. All of these bills died in committee.

Thus, Congress unquestionably knew of the existence of the doctrine of licensee estoppel and the assertion that it conflicts with the anti-trust laws, and its refusal to abolish it must be interpreted as some evidence of not only approval of the doctrine but also as a recognition that it does not interfere with the underlying policy of either the patent laws or the anti-trust laws. Consequently, if the doctrine is to be abolished, it is the function of Congress to do so. However, if this Court feels that judicial established doctrines are to be judicially overruled, then the doctrine of licensee estoppel should be overruled prospectively only, as explained in Point IV, *infra*, to avoid unnecessarily penalizing inventors who have relied on existing case law.

**E. Lear Is Estopped by Its Bargain to Contest the "Patentability" of the Claims of the Application.**

When Lear argues that it should be permitted to contest the "patentability of the claims" of the application, it is really only advancing its argument that under its construction of paragraph 6 of the agreement, it could unilaterally and incorrectly anticipate final Patent Office action, determine that no claims could issue, and terminate the license agreement. On this issue the California Supreme Court, in construing the license agreement, held that Lear could not do so.<sup>146</sup> That court's

<sup>146</sup>A-I, 183-184, 191, Pet. App. 20-21, 28.

decision on this State issue is obviously correct, and, in any event, cannot be redecided by this Court. Under paragraph 2(a) of the license agreement Lear accepted a license of the claims of the original application (even though, as Lear knew, those claims had been rejected and new and amended claims were pending),<sup>147</sup> which claims were defined in paragraph 1(b)<sup>148</sup> to include "the inventions disclosed or intended to be disclosed" in the specifications. No mention was made of the then pending claims of Amendment A or the possibility that those claims would be rejected and new or amended claims substituted. Thus, Lear bargained not for patentable claims in the application, but for the right to use the idea, discovery and invention disclosed or intended to be disclosed in the specifications until final Patent Office action and thereafter for claims which covered the invention. Lear did not receive the right either to terminate the agreement prior to final Patent Office action or to contest the "patentability" of the claims of the application. To the contrary, the claims of the application and any amended or new claims were totally irrelevant to the bargain. Consequently, under the agreement Lear freely and voluntarily entered into, it could not question whether the Patent Office would issue a patent with claims covering the invention.

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<sup>147</sup>R. T. 52.

<sup>148</sup>A-II, 4, Pet. App. 128.



**F. Since the Doctrine of Licensee Estoppel Does Not Violate Either the Patent Laws or the Anti-Trust Laws, the Procedural Device of Repudiating and Standing Out From Under the License Agreement as a Means of Avoiding the Estoppel Should Not Be Permitted.**

Initially, it is important to recognize that Lear never purported to repudiate and stand out from under the license agreement. On September 10, 1957,<sup>149</sup> and while Adkins' patent application was pending, Lear advised Adkins in writing that it did not consider that his invention was being used in the steel gyros and that it considered the invention unpatentable. Thereupon, Lear ceased paying royalties on the steel gyros but continued to account for royalties on the 2156 gyro. A refusal to pay royalties is not a termination or a repudiation but only a breach of contract, *White v. Lee* (1880, Cir. Mass.), 2 Fed. 222, especially where Lear only refused to pay royalties on the steel gyros and continued to account for royalties on the 2156 gyro. In other words, the refusal to pay royalties on the steel gyros was based on Lear's erroneous construction of the license agreement, upon which it relied. On April 8, 1959,<sup>150</sup> and when Adkins' patent application was still pending, Lear again wrote to Adkins and purported to terminate the license agreement pursuant to paragraph 2(a) and 6 thereof, and thereafter refused to pay any further royalties at all. Neither Lear's letter of September 10, 1957 nor its letter of April 8, 1959 made any mention that Lear was either repudiating or standing out from under the license agreement. To the

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<sup>149</sup>Ex. 36.

<sup>150</sup>Ex. 39.

contrary, Lear attempted in both letters to exercise non-existent rights which it believed to exist under and pursuant to the terms and provisions of the license agreement. Thus, Lear was relying on the license agreement on both occasions and not repudiating or standing out from under it. Stated differently, Lear asserted at all times after April 8, 1959 that under the license agreement it had no further liability for royalties, and that under three agreements<sup>150a</sup> executed concurrently with the license agreement it owned the invention and could not be sued in the Federal court for infringement.<sup>150b</sup>

Even under those cases which permit repudiation in order to contest validity, an unequivocal notice of repudiation is required, *Martin v. New Trinidad Lake Asphalt Co.* (1919, D.C., N.J.), 255 Fed. 93. Consequently, Lear has not brought itself within those cases and the issue of repudiation is not present in this case. As the California Supreme Court held, Lear did not repudiate or terminate the license agreement, but, rather, both letters constituted only a breach of contract,<sup>151</sup> since Lear had agreed to pay royalties until final Patent Office action, which did not occur until January 5, 1960, and had further agreed to pay royalties thereafter if the issued claims covered the gyros in issue.

Lear nevertheless cites several cases (*Bucky v. Sebo* (1953, Cir. 2), 208 F. 2d 304, *Holmes, Booth & Haydens v. McGill* (1901, Cir. 2), 108 Fed. 238, *Mudgett*

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<sup>150a</sup>R. T. 1503-1508.

<sup>150b</sup>"Reply Brief for Lear concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict All with Respect to the 2156 Gyro," 29-30.

<sup>151</sup>A-I, 191, Pet. App. 28.

*v. Thomas* (1893, C.C., Ohio), 55 Fed. 645, *Brown v. Lapham* (1886, C.C., N.Y.), 27 Fed. 77, and *Crew v. Flanagan* (1954), 65 N.W. 2d 878) for the abstract proposition that a licensee may repudiate and stand out from under the license agreement and is then freed from the estoppel doctrine in order to show that there is a total failure of consideration because the patent is invalid. As *Lear* states, there are cases to the contrary (*St. Paul Plow Works v. Starling* (1891), 140 U.S. 184, *Bowers Mfg. Co. v. All-Steel Equipment, Inc.* (1960, Cir. 9), 275 F. 2d 809, *Eastern States Petroleum Co. v. Universal Oil Co.* (1938), 22 Del. Ch. 76, 2 A. 2d 138) which apply the opposite and better rule. In the *St. Paul Plow Works* case, *supra*, this Court held that a licensee cannot "repudiate" the license and avoid the estoppel doctrine while continuing to manufacture devices covered by the patent, and if the licensee purported to do so, the licensor could, at his election, sue on the contract for royalties or terminate the contract and sue for infringement and statutory damages. Accord, *Automatic Radio Mfg. Co. v. Hazeltine Research* (1949, Cir. 1), 176 F. 2d 799. In the *Bowers* case, *supra*, the Ninth Circuit held that the licensee's procedural maneuver of purporting to repudiate the agreement in an attempt to thereby avoid the doctrine of estoppel to question the validity of his licensor's patent was unavailing and logically should not avoid the doctrine of estoppel. The court said, at page 812: "It is difficult to see why a procedural technicality such as this should create substantive rights in the licensee."

If a licensee, by the mere device of purporting to "repudiate" and stand out from under the agreement, could free himself from the doctrine of estoppel to ques-

tion the validity of the patent, the result would be the total abolition of the doctrine, which has been approved and applied consistently by this Court. This Court should not place form over substance and permit the licensee to accomplish by indirection what cannot be accomplished directly.

**G. The Doctrine of Licensee Estoppel Is No Different Where the License Is Initially of the Invention Disclosed in a Patent Application Which Shifts to a License Under the Claims of the Issued Patent, Especially Where the Issued Claims Cover the Invention of the Application and the Invention of the License Agreement.**

In construing the license agreement, the California Supreme Court held that Lear agreed to pay Adkins the stipulated royalty for the invention disclosed in the application, which Lear "agreed and understood" in paragraph 17 it was using in the 2156 gyro and the steel gyros, until final Patent Office action. That court further held that if a patent issued with claims covering the invention embodied in those gyros, Lear agreed to continue to pay the stipulated royalty. As that court also held, "the patented apparatus falls within the scope of the initial application, and because Lear has adapted it to its steel gyros, we must conclude that the patented apparatus was within the contemplation of the parties."<sup>152</sup> Thus, Lear received precisely what it bargained for and agreed to pay for. As a result, Lear's argument that the rule should be different because the licensor can expand his claims to cover something different than the invention the licensee intended to license is not in point, as Adkins did not expand his claims to

<sup>152</sup>A-I, 197, Pet. App. 34.

cover a different invention but obtained claims which covered the invention of the application, the invention of the license agreement and the invention Lear continuously used in all five gyros in issue.

*Baldwin Rubber Co. v. Payne & Williams Co.* (1939, Cir. 6), 107 F. 2d 350, and *Stubnitz-Greene Spring Corp. v. Fort Pitt Bedding Co.* (1940, Cir. 6), 110 F. 2d 192, both cited by Lear, afford the complete answer, in that the rule of licensee estoppel is not and should not be any different depending on whether the license originates under the application or under the patent, since the licensee can show (1) that the issued claims do not cover the invention which is the subject matter of the contract and/or (2) that he is building his device solely according to the teachings of the prior art. As the court said in the *Stubnitz-Greene* case, *supra*, at page 195, the licensee "is estopped to deny patentability. This rule is applicable as between a licensor assignor and licensee assignee whether either be a patentee or applicant only." Consequently, Lear's reliance on the *dictum* in *Westinghouse Co. v. Formica Co.* (1942). 266 U.S. 342, that "the range of relevant and competent evidence in fixing the limits of the *subsequent estoppel*" might be different where the assignment involved a patent application, an issue which the Court did not decide, need not be considered, as the issue was thereafter properly decided by the Federal courts.



IV.

**IF, ARGUENDO, (a) LEAR IS NOT ESTOPPED TO QUESTION VALIDITY; (b) ADKINS' PATENT IS INVALID; AND (c) TOTAL FAILURE OF CONSIDERATION RESULTS, LEAR MUST, NEVERTHELESS, ACCOUNT FOR ALL ROYALTIES, WHICH HAVE ACCRUED PRIOR TO A FINAL JUDGMENT OF INVALIDITY.**

As stated *supra*, Lear, under the September 15, 1955 license agreement, in addition to taking a license of the invention disclosed in the application, which shifted to a license under the issued patent, also obtained a "cancellation" of the December 29, 1951 letter agreement under which its liability was far more sweeping, in that Lear was required to pay Adkins a mutually satisfactory royalty irrespective of the patentability of the idea, discovery or invention. The cancellation of this obligation by paragraph 13 of the license agreement clearly constituted additional and substantial non-severable consideration which, even absent a valid patent, supports Lear's agreement to pay royalties, *United States v. Harvey Steel Co.* (1905), 196 U.S. 310, *Patterson-Ballagh Corp. v. Byron Jackson Co.* (1944, Cir. 9), 145 F. 2d 786, *Del Riccio v. Photochart* (1954), 124 Cal. App. 2d 301, as Lear concedes in discussing the *Harvey Steel* case at page 37. (For other additional nonseverable consideration, see Point III, subd. A, *supra*.)

If, *arguendo*, this Court relieves Lear from the estoppel to question validity, finds the patent invalid, and further finds that invalidity constitutes a complete failure of consideration, the question then becomes whether the consideration fails *ab initio*, or when Lear breached the agreement, or when the patent is held invalid, either by the trial court or by a court of last re-

sort. As a matter of balancing the competing considerations of exposure of invalid patents and enforcing bargains freely and fairly made, elemental principles of equity as well as logic compel selection of the date upon which a court of last resort holds the patent invalid. Until the patent is held invalid, the consideration does not fail, since until that event occurs the licensee has received precisely what he bargained for and should pay for, that is, the right to manufacture under a presumptively valid patent, *Barber Asphalt Paving Co. v. Headley Good Roads Co.* (1922, D. C., Del.), 284 Fed. 177, 179. Moreover, this result would preserve to a licensee the opportunity and incentive to contest validity, since it would free him from further royalties and at the same time would enforce the bargain of the parties until the final result, thereby tempering the harsh effect of retroactive application which would destroy the bargain *ab initio*. This result would alleviate to some extent the unsettling effect of upsetting prior law on which inventors have relied. The Government concedes the fairness of such a rule at page 35 where the licensee in fact receives all he bargained for until the patent is declared invalid. In this regard, the license agreement states, in paragraph 6, that if the patent "is subsequently held invalid," Lear may terminate the agreement and is absolved of "further royalties." Although it can be argued that the cut-off date should be the trial court's decision, in the case at bar, the decision of the trial court that the patent was invalid, rendered on judgment *n.o.v.* and reversing a jury finding to the contrary, was reversed by both the District Court of Appeal and the California Supreme Court, and is therefore a nullity as if it had never existed, *Ponce v.*

*Marr* (1956), 47 Cal. 2d 159. As explained in Point V, *infra*, it was also erroneous as a matter of law, since the trial court redecided facts found by the jury on uncontradicted testimony. (Thus, the Government's statement (p. 15) that the trial court's ruling of invalidity was not disturbed on appeal is incorrect.)

Until the adjudication of invalidity is final, the licensee still enjoys the benefits of the protection of the patent, which prevents other manufacturers from practicing the invention. *Appleton Toy & Furniture Co. v. Lehman Co.* (1948, Cir. 8), 165 F. 2d 801. In addition, since the patent is *prima facie* valid and has all of the attributes of property, and similarly the license agreement is also property, to use any date other than final adjudication in a court of last resort would be to deprive the licensor of property without due process in contravention of the Fifth Amendment, *Lynch v. United States* (1934), 292 U.S. 571, 577. Finally, in the case at bar, to choose any date other than the final judgment of patent invalidity would clearly result in a windfall to Lear and thereby unjustly enrich Lear at Adkins' expense, *Kinsman v. Parkhurst* (1855), 18 How. 289.

Thus, in *Jungerson v. Kaysen* (1953), 173 Pa. 114, 95 A. 2d 347, the Pennsylvania Supreme Court held that a decision that a licensed patent is invalid does not operate *ab initio*, but, rather, causes an eviction as of the date of the final judgment, and that consequently the licensee must pay "royalties accruing prior to the declaration of invalidity." Accord, *Automatic Radio Mfg. Co. v. Hazeltine Research* (1949, Cir. 1), 176 F. 2d 799, *Wynne v. Allen* (1957), 245 N.C. 421, 96 S.E. 2d 422, *Barber Asphalt Paving Co. v. Headley Good Roads Co.*

(1922, D.C., Del.), 284 Fed. 177. As the court said in the *Hazeltine* case, *supra*, at page 809, the judgment of the trial court holding the patent invalid should not constitute an eviction excusing the payment of royalties, as "a holding by one lower court that a patent is invalid is hardly a conclusive determination of that patent's invalidity." This is obviously true; since the trial court can, of course, be reversed, *National Sponge Cushion Co. v. Rubber Corp. of California* (1961, Cir. 9), 286 F. 2d 731, *Triplett v. Lowell* (1936), 297 U.S. 638.

V.

**IF, ARGUENDO, LEAR IS NOT ESTOPPED TO QUESTION VALIDITY, THEN ADKINS' PATENT IS VALID AS A MATTER OF LAW.\***

**A. Introduction.**

Rule 23-1(c) of the Rules of this Court provide that only questions presented in the petition for a writ of certiorari and "subsidiary question[s] fairly comprised therein" may be considered. The broad question of validity, involving issues of anticipation, obviousness and the application of the constitutional standard for invention,<sup>4</sup> are not within the questions presented in Lear's petition. The only question which Lear presented on the issue of validity was the alleged insertion of "new matter" in the specifications. This narrow question was presented in question 5 of Lear's petition and

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\*In its brief, at pages 49-81, Lear weaves back and forth between issues of validity and issues of infringement in a haphazard manner which makes it difficult to answer its arguments in the illogical order in which they are presented. Since validity and infringement involve some unrelated questions, Adkins will, in this Point V, cover validity in logical order and in Point VI will cover infringement, also in logical order.

discussed therein in Point III at pages 33-37. It is therefore submitted that this Court should limit itself to this narrow issue, which is considered in subd. B hereof, in conformity with Rule 23-1(c). Moreover, if the issue of the application of the constitutional standard for invention is reached on the merits, the case should be remanded to the California Supreme Court for a square ruling on this issue in accordance with the announced policy of this Court, *Abbott Laboratories v. Gardner* (1967), 387 U.S. 136, *Okla. Gas Co. v. Russell* (1923), 261 U.S. 290, as conceded by the Government in its *amicus* brief (p. 26).

Even if this Court does undertake to decide the issue of validity, the sole question under *Graham v. John Deere Co.* (1966), 383 U.S. 1, will not be whether Adkins' patent was anticipated or is obvious, but, rather, only whether the invention meets the constitutional standard for invention. As this Court said in the *Graham* case, *supra*, at page 674, the ultimate question of patent validity is one of law, but the issues of anticipation and obviousness are "basic factual inquiries," which, in this case, were decided by the jury. In *Chicago, Burlington etc. Rd. v. Chicago* (1896), 166 U.S. 226, 242-245, this Court held that under the Seventh Amendment, the United States Supreme Court may not retry facts which have been determined by a State court jury. In other words, where a jury has found that the patent is neither anticipated nor obvious, the Court must take the evidence and all proper inferences therefrom most favorable to validity and determine, based on that evidence only, whether the standard for invention has been satisfied, *Graham v. John Deere Co.*, *supra*, *Oxnard Cannery v. Bradley* (1952, Cir. 9), 194 F. 2d 655.



During the trial, which consumed many weeks, extensive expert testimony was introduced by both parties on the issue of the nature of the patented device, what results it accomplished and how it did so. Similarly, extensive expert testimony was introduced concerning the nature of each prior art patent, what results each accomplished and how each did so. In its brief, Lear concedes that this testimony was extensive (p. 55), and then proceeds, without even one reference or citation to the evidence, to state its own erroneous conclusions of fact on these factual issues, thereby totally ignoring the uncontradicted evidence to the contrary. In so doing, Lear ignores the California Supreme Court's summary of the uncontradicted evidence and relies heavily on the trial court's erroneous conclusions of fact for support, even though the California Supreme Court's reversal of the trial court results in the trial court's opinion being a nullity just as if it had never existed, *Ponce v. Marr* (1956), 47 Cal. 2d 159, 161.

However, since Lear in its brief covered every single factual issue involved in the question of validity, Adkins is required herein to review all of the evidence in order to show that Lear's factual conclusions are wrong and that based on the documentary evidence and the testimony in the record, the jury correctly found that Adkins' patent is neither anticipated nor obvious, and that based on that evidence, Adkins' patent satisfies the constitutional standard for invention.

Moreover, as will be seen, Adkins' invention is not the simple gadget immediately understandable to laymen, but is a highly sophisticated device, which, by employing a new cooperative relationship among pairs of three old elements, accomplishes precise coaxial and

parallel alignment of bearings in a way never before achieved, with results never before realized. Although anyone who can read cross section drawings can count the number of parts in Adkins' device and in the prior art patents, neither Adkins' patent nor the prior art patents elaborate on the cooperative relationship, which therefore both required and received expert testimony of those skilled in the art to explain. Similarly, expert testimony is required to explain why Adkins' device achieves a result which the prior art patents do not and cannot achieve. Although there are cases where this Court has decided issues of validity, *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.* (1950), 340 U.S. 147, and infringement, *Singer Mfg. Co. v. Cramer* (1904), 192 U.S. 265, without resort to the testimony, the devices in question were of such simplicity that the issue was not how they functioned mechanically or what results they accomplished. Where, however, the issue is what the patent teaches, *Bischoff v. Wethered* (1869), 9 Wall. 812, or how the device functions mechanically and the results it accomplishes, *Loom Co. v. Higgins* (1881), 105 U.S. 580, this Court should not "assay an independent evaluation of this evidence," *Graver Tank & Mfg. Co. v. Linde Air Products Co.* (1950), 339 U.S. 605, particularly where the expert testimony of both Adkins' and Lear's witnesses is the same.

**B. Amendment D Dated December 18, 1958 Did Not Add Any "New Matter."**

Lear urges that Amendment D added "new matter" which (1) changed the invention from a method to an apparatus, (2) changed the invention to alignment of

bearing cups having replaceable bearings, (3) expanded the shape of the parts to include all shapes, and (4) changed the cooperative relationship of the parts to eliminate contact.

**(1) Amendment D Did Not Change the Tenor of the Invention From a Method to an Apparatus.**

In concluding that by Amendment D the invention was changed from a method to an apparatus, Lear wholly ignores claim 9 in the original patent application filed on February 15, 1954. Even Lear's witness, Mr. Ferrill, testified that claim 9 is an apparatus claim, stating:<sup>153</sup> "... the ninth claim, was an apparatus claim." Apparatus claim 9 was amended by Amendment A filed on March 9, 1955<sup>154</sup> and was still pending as an apparatus claim when the license agreement was executed. Thereafter, claim 9 was again amended on September 27, 1957<sup>155</sup> by Amendment B, was not changed by Amendment C filed on January 21, 1958 (which added five new apparatus claims), was again amended on December 30, 1958 by Amendment D,<sup>156</sup> and was finally canceled by Amendment E filed on March 4, 1959<sup>157</sup> and replaced with new and broader apparatus claims 29-36,<sup>158</sup> which issued as claims 9-16 of the patent on January 5, 1960.<sup>159</sup> Although the original specifications talked in terms of the "meth-

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<sup>153</sup>A-I, 64, R. T. 1286.

<sup>154</sup>A-II, 68, Ex. P, 37.

<sup>155</sup>A-II, 77, Ex. P, 45.

<sup>156</sup>A-II, 90, Ex. P, 60.

<sup>157</sup>A-II, 96, Ex. P, 64.

<sup>158</sup>A-II, 96-98, Ex. P, 64-66.

<sup>159</sup>A-II, 18, Ex. 10.

od of aligning,"<sup>160</sup> this was essential to teach others how to practice the invention. The drawing (Fig. 2),<sup>161</sup> of course, depicted a completed apparatus, which the original specifications describe as illustrating the "components [of] the invention,"<sup>162</sup> and in view of the fact that there was an apparatus claim in the application, that apparatus claims were pending in all amendments and that apparatus claims issued, it is somewhat difficult to understand Lear's assertion that the tenor of the invention was changed from a "method" to "method and apparatus." Rather, it is clear that Adkins always conceived of his invention as both a method and an apparatus and claimed it as both.

Lear's entire argument on this issue is that Amendment D added to the specifications the word "means" in column 7, line 65.<sup>163</sup> However, the word "means," when used as a shorthand description of several elements of a combination patent, is no broader than what is already disclosed, described and defined, and adds nothing to the patent which is not already there, *Henry v. City of Los Angeles* (1916, S.D., Cal.), 230 Fed. 457.

**(2) The Original Specifications Always Contemplated Alignment of the Bearing Cups Without the Bearings in Place and Removable Bearings.**

Amendment D added, in column 7, lines 70-72,<sup>164</sup> that the bearing cups may be aligned and the bearings

<sup>160</sup>A-II, 36, Ex. P, 4, line 4.

<sup>161</sup>A-II, 64, Ex. P, 32.

<sup>162</sup>A-II, 38, Ex. P, 6, line 6.

<sup>163</sup>A-II, 18, Ex. 10.

<sup>164</sup>A-II, 18, Ex. 10.

are removable bearings. However, it cannot be denied that the *original* application and the drawing (Fig. 2) disclosed and depicted alignment of the bearing cups and removable bearings. The drawing in the original application (Fig. 2) always depicted element 63, the pair of bearing cups, which was defined in the original specifications<sup>165</sup> as "insert elements 63." The original specifications also state<sup>166</sup> that the mandrel "may be used to align the *holder* for the inner or outer races or both" (emphasis added). Thus, the original specifications use the words "inserts" and "holders" interchangeably to describe element 63, the bearing cups, and therefore the original specifications contemplate that the mandrel may be used to align either the bearing cups without the bearings in place or the bearing cups with the bearings in place. Even if the original specifications had not expressly stated that the bearing cups may be aligned without the bearings in place, this is so obviously an equivalent of placing removable bearings in the bearing cups and then aligning the cups that anyone skilled in the art would realize that one is a substitute for the other. What is an obvious equivalent of what is depicted and described is not new matter, *Application of Heinle* (1965, Ct. of Customs & Patent Appeals), 342 F. 2d 4001, *Engineering Development Laboratory v. Radio Corporation of America* (1946, Cir. 2), 153 F. 2d 523. In the *RCA* case the court said, at page 527, that "amendments which go no further than to make express what would have been regarded as an equivalent of the original [are not new matter]." Accord, *In re Wright* (1965, Ct. of Cust. & Pat. App.), 145 USPQ 182.

<sup>165</sup>A-II, 50, Ex. P, 18, line 27.

<sup>166</sup>A-II, 37, Ex. P, 5, lines 28-30.



The original specifications also state<sup>167</sup> that "the inserts 63 are secured to the gimbal mounting sockets." There is nowhere in the original specifications any statement that the bearings are permanently secured. Since the original specifications contemplated only that the bearing cups be permanently secured in the bearing cup receiving holes, it is obvious that the specifications initially contemplated removable and replacable bearings. As Lear's witness put it,<sup>168</sup> removable bearings are the key to gyro design, which is something that is known to all skilled in the gyro art. Significantly, not one witness called by Lear testified that Adkins' original specifications did not contemplate removable bearings. Thus, Amendment D merely made express what was already disclosed. Again, as the court said in *Application of Heinle, supra*, an amendment to the specifications which does no more than further define what is already disclosed is not new matter. Therefore, the addition of the matter at column 7, line 67, to column 8, line 11,<sup>169</sup> which merely further explains the significance of removable bearings which were described in the original specifications and depicted in the original drawing, did not add any new matter as a matter of law.

**(3) Amendment D Did Not Expand the Shape of the Parts by Adding the Words "Any Desired Configuration."**

Lear complains that Amendment D added, in column 8, lines 28-31,<sup>170</sup> that the confronting surfaces of the

<sup>167</sup>A-II, 51, Ex. P, 19, line 10.

<sup>168</sup>A-I, 65, R. T. 1733-1734.

<sup>169</sup>A-II, 18, Ex. 10.

<sup>170</sup>A-II, 18, Ex. 10.

bearing cups and receiving holes may be "of any desired configuration," and claims that this broadened the invention from a sphere in a cone or a sphere in a sphere to parts of any shape. However, the original specifications also state<sup>171</sup> that "other surfaces capable of being aligned and fixed in position such as a sphere in sphere, *knife edges or other devices* may be used without coming outside the scope of this invention" (emphasis added). The original specifications further stated<sup>172</sup> that "while the use of mating conical and spherical surfaces has been mentioned, it is apparent that other *similarly cooperating surfaces* can be used. For example, a spherical surface can be used with another spherical surface, and *other combinations* can be employed" (emphasis added). The original specifications further state<sup>173</sup> that although "a preferred form has been shown and described, it is to be understood that the invention is not to be restricted to the particular form and arrangement of parts herein described and shown." The expert witnesses testifying on this subject stated that the specifications do not *expressly*<sup>174</sup> or even by *implication*<sup>175</sup> require any one particular shape to accomplish the desired objective of precise coaxial and parallel alignment of a pair of bearing cups. To the contrary, they testified that the specifications contemplate *all* conceivable configurations,<sup>176</sup> and it is obvious that dozens of different

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<sup>171</sup>A-II, 37, Ex. P, 5, lines 25-28.

<sup>172</sup>A-II, 52, Ex. P, 20, lines 7-11.

<sup>173</sup>A-II, 52, Ex. P, 20, lines 24-26.

<sup>174</sup>R. T. 2354-2356, 2382.

<sup>175</sup>R. T. 2382.

<sup>176</sup>See fns. 174, 175.

cooperating configurations could be employed. It is significant that Lear, in attempting to convince this Court that Adkins' original application contemplated only a sphere in a cone or a sphere in a sphere, never once mentions the use of the words "or other devices" or "similarly cooperating surfaces" or "other cooperating surfaces," precisely because to do so would destroy its argument.

It is thus apparent that although Adkins' preferred embodiment was a spherical bearing cup and a conical receiving hole, Adkins expressly and from the beginning recognized that the shape of the parts was purely a matter of individual choice. The law is clear that an inventor must only set forth his preferred embodiment, and is not limited to the particular form or shape of the parts described in the specifications and shown in the drawings, *Reiner v. I. Leon Co.* (1960, Cir. 2), 285 F. 2d 501, 35 USC §112, *Chicago Pneumatic Tool Co. v. Hughes Tool Co.* (1938, Cir. 10), 97 F. 2d 945.

- (4) Amendment D Did Not Change the Cooperative Relationship From a Contacting Ball in Socket Achieving Alignment by Universal Motion, Since the Original Specifications Always Contemplated Parts of Any Shape Which Would Cooperate to Permit the Parts to Tilt With Respect to Each Other.

Adkins' expert witnesses, Lee<sup>177</sup> and Comstock,<sup>178</sup> both testified that the specifications do not require contact but only cooperating parts. Even Mr. Ferrill, Lear's only witness on this subject, had to concede that the specifications<sup>179</sup> do not expressly require contact between

<sup>177</sup>R. T. 2382-2384.

<sup>178</sup>R. T. 2356, 2358-2359, 2365.

<sup>179</sup>R. T. 1441.

the bearing cup and the receiving hole. In fact, the specifications do not even once use the word “contact” or state that contact has any function in achieving alignment. Despite this uncontradicted evidence, Lear relies on the phrase “the engaging spherical and conical surfaces” in column 2, line 58,<sup>180</sup> of the original specifications to require “contact” between the bearing cup and the receiving hole. However, the word “engaging” is obviously used only as a description of those parts as shown in Figure 2 of the patent, which, *like all assembly drawings*, does not show dimensions,<sup>181</sup> tolerances or clearances,<sup>182</sup> but uses one line for two adjacent parts even if they are not touching. For example, Lear’s Assembly Dwg. 101478 of the 2152 steel gyro<sup>183</sup> uses one line for the surfaces of the bearing cup and the receiving hole even though the hole is concededly oversized. As the court said in *Manhattan Book Mach. Casing Co. v. E. C. Fuller Co.* (1912, D.C., S.D. N.Y.), 274 Fed. 964, at page 966, “diagrams or descriptions are not meant for working drawings.” Even more important, Lear wrenches the word “engaging” out of context to make this argument. The entire phrase from which Lear extracts the word “engaging” is that “the engaging surfaces *permit* the bearing race axis to be *oriented in any direction*”<sup>184</sup> (emphasis added). The phrase “oriented in any direction” was not added by Amendment D but was part of the original specifications. Thus, if the bearing cup can be oriented “in

<sup>180</sup>A-II, 18, Ex. 10.

<sup>181</sup>R. T. 1152, 1158.

<sup>182</sup>R. T. 1156, 1158.

<sup>183</sup>Ex. 23 [R. T. 359].

<sup>184</sup>A-II, 37, Ex. P, 5, lines 20-25.

any direction," i.e., up, down, sideways or around, this is the antithesis of "contact" between the bearing cups and the receiving holes, as contacting parts cannot be oriented "in any direction."

Nor do the original specifications mention balls in sockets or universal motion. Again, the testimony of Adkins' and Lear's experts forecloses this argument. As Mr. Lee said,<sup>185</sup> the specifications do not require that a ball in socket joint is necessary to achieve coaxial and parallel alignment, nor does it require universal motion. Mr. Comstock's testimony<sup>186</sup> is the same. Even Mr. Ferrill conceded that Adkins' patent is not *expressly* limited to a class of devices such as a ball in a socket<sup>187</sup> or to accomplishing alignment by universal motion,<sup>188</sup> and, in fact, admitted that the specifications do "not mention what the action is at all."<sup>189</sup>

As Adkins testified, in the patented device the alignment of the bearing cups is achieved solely by tilting the cups, which have been coated with cement, with respect to their receiving holes, which have been similarly coated,<sup>190</sup> so that the alignment initially achieved is maintained, irrespective of the coaxial alignment of the receiving holes and irrespective of the parallel alignment of the end bells. Since Lear's counsel conceded this no less than three times,<sup>191</sup> and again concedes

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<sup>185</sup>R. T. 2382-2383.

<sup>186</sup>R. T. 2356, 2358-2359.

<sup>187</sup>R. T. 1433.

<sup>188</sup>R. T. 1433.

<sup>189</sup>R. T. 1430-1431.

<sup>190</sup>R. T. 2474-2475, 358.

<sup>191</sup>A-I, 64, R. T. 1039, A-I, 72, 2946, A-I, 72, 2975.



it here in its brief on the merits (p. 59 and fn. 24 on p. 69), there is no reason to belabor the point any further.

Although Lear also complains that Amendment D added approximately one-third to the specifications, except for the new language discussed above, the remaining language does no more than further explain the significance of the invention over the prior art and add additional uses to which the invention can be put. As a matter of pure logic, this cannot be new matter, since it does not change the nature of the invention in any way, *Interchemical Corporation v. Sinclair & Carroll Co.* (1944, Cir. 2), 144 F. 2d 842, 846.

Since the law does not require an inventor to distinguish over the prior art in the specifications, further explaining the advance over the prior art in an amendment is akin to arguments made to the patent examiner, which cannot be new matter. Explaining additional uses for the invention protects the public, since it gives notice of the range of applicability, *Schriber-Schroth Co. v. Cleveland Trust Co.* (1940), 311 U.S. 211, and therefore is also not new matter, *In re Solomon* (1943, Ct. of Cust. & Pat. App.), 58 USPQ 399, since the "patentee is entitled to the advantage of every use to which his invention is susceptible, whether the use is known or unknown to him."

Obviously, the Patent Office did not consider anything in Amendment D to contain any new matter, and its ruling is entitled to great weight, *Helms Products, Inc. v. Lake Shore Manufacturing Co.* (1955, Cir. 7), 227 F. 2d 677, *General Electric Co. v. Cooper Hewitt Electric Co.* (1918, Cir. 6), 249 Fed. 61, *Bald-*

*win-Lima-Hamilton Corp. v. Tatnall Meas. Sys. Co.* (1958, D.C., Pa.), 169 F. Supp. 1, affirmed 268 F. 2d 395. As the court said in the *Helms Products* case, *supra*, at page 679: "The fact that the Patent Office granted the patent in suit necessarily means that it did not consider the amendments to the application as 'new matter' within the meaning of its rules or of the Act. Since the Patent Office is constantly determining and defining what is or what is not new matter, its ruling on such questions is entitled to special weight."

Thus, Lear's entirely conclusionary argument (a) that Adkins committed a fraud on the Patent Office by inserting new matter and by filing an oath that it was not new matter; (b) that Adkins relied on new matter to obtain the issued claims; and (c) that the new matter had been in public use for over one year, is erroneous since, as a pure question of law, no new matter was added and the same claims could have issued on the original specifications. Although Lear accuses the California Supreme Court of ignoring this issue, that court was careful to point out that Adkins could not "enlarge the disclosure of the application as initially filed by adding new matter,"<sup>192</sup> and that the issuance of a patent "means that the Patent Office did not consider the amendment to constitute new matter in violation of the patent laws, and its determination in this regard is entitled to special weight."<sup>193</sup> That court then went on to hold that Adkins did not in fact add new matter, as "the patented apparatus falls within the scope of the *initial application*" (emphasis added).<sup>194</sup>

<sup>192</sup>A-I, 168, Pet. App. 5-6.

<sup>193</sup>A-I, 169, Pet. App. 6.

<sup>194</sup>A-I, 197, Pet. App. 34.

Based on the foregoing, the California Supreme Court's conclusion is manifestly correct, as there is no need to consider the effect of new language if the claims are supported by the original specifications, *Ex Parte Nathan* (1963, Bd. of Pat. App.), 141 USPQ 439. Thus, that court's statement in footnote 35<sup>195</sup> that it is unnecessary to consider the issue of fraud on the Patent Office by adding new matter, upon which Lear places great emphasis, is only an alternative holding after the court in fact correctly decided the issue on the merits in Adkins' favor.

Moreover, the insertion of alleged new matter cannot possibly constitute fraud on the Patent Office. Whatever language is added to the specifications is not only disclosed but is also presented to the Patent Office for consideration as to whether or not it constitutes new matter, and is a decision which rests entirely on the original specifications and drawings. If the Patent Office is wrong and what is added does constitute new matter, this may invalidate the patent if the claims are based thereon. However, it cannot constitute fraud if the inventor honestly believes that it is not new matter. In this regard, Adkins' "priority drawing" dated August 25 and August 26, 1952, which discloses alignment of the bearing cups without the bearings in place and expressly contemplates all shapes of the parts, conclusively disproves any intentional misrepresentation. Nor, for that matter, has Lear pointed to any evidence whatsoever of any misrepresentation.

In short, the added language was not the afterthought of a clever patent attorney condemned by *Graham v.*

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<sup>195</sup>A-I, 209, Pet. App. 46.

*John Deere Co.* (1966), 383 U.S. 1, but was within Adkins' contemplation at the outset and also contained in other language in the original specifications. Stated differently, this type of polishing the specifications which adds nothing new is not "new matter." Therefore, Lear's citation of *Muncie Gear Works, Inc. v. Outboard, Marine and Mfg. Co., Inc.* (1942), 315 U.S. 759, is wholly inapposite, since there the inventor, more than two years after the application was filed, amended the claims to describe an invention having an entirely different combination than that originally contemplated in the specifications. *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company* (1945), 324 U.S. 806, cited by Lear, is also not in point. In that case the fraud, which was held to bar the suit was the patentee's actual knowledge that the alleged inventor was not the true inventor and that the alleged inventor had falsified his priority date. The case at bar is not even remotely similar to the *Precision* case for the simple reason that nothing was concealed from the Patent Office, no misrepresentation was made to the Patent Office, and, more important, as a matter of law, no new matter was inserted in the specifications.

**C. The Nature of Adkins' Patented Device, the Results It Achieves and How the Results Are Achieved.**

Adkins' patented device utilizes a *permissive* cooperation among three concededly old elements, wherein a *pair* of bearing cups are prealigned on a mandrel and tilted into precise and accurate parallel and coaxial alignment *regardless of the parallelism of the end bells*<sup>196</sup>

<sup>196</sup>R. T. 1214.

and irrespective of the coaxial alignment of the receiving holes,<sup>197</sup> and then permanently fixed in place so as to permit pairs of bearings to be interchangeably mounted in aligned relationship without disturbing the alignment initially achieved.<sup>198</sup>

The elements of Adkins' patent and their new cooperative relationship can be restated as follows:

*Elements:*

1. A pair of bearing cups;
2. Frames providing a pair of bearing cup receiving holes;
3. Cement.

*The New Cooperative Relationship:*

1. The cups and the receiving holes may be of any desired configuration which permits the bearing cups
2. to be tilted to maintain coaxial and parallel alignment with each other,
3. irrespective of the parallelism of the end bells and
4. irrespective of the coaxial alignment of the receiving holes,
5. so that pairs of bearings may be inserted, removed and replaced in exact alignment without realigning any of the parts.

Consequently, it remains to be seen only that no prior art patent anticipates Adkins' invention, that Adkins' invention was not obvious because of any prior art patent, and that Adkins' invention satisfies the

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<sup>197</sup>R. T. 379-381.

<sup>198</sup>R. T. 1492-1493, 379.



constitutional standard for invention. As this Court said in *United States v. Adams* (1966), 383 U.S. 39, where there is evidence that the advance over each prior art patent, considered separately, is significant, and new and different results are achieved, the patent is valid. In commenting on this issue, the California Supreme Court said:<sup>190</sup>

"In no respect was the prior art demonstrated to provide, by individual patent or collectively, a means of permanently fixing a pair of replaceable bearings in coaxial and parallel alignment. We cannot say, as urged by Lear, that the prior art disclosed a means by which it could accomplish substantially the same result, in substantially the same way by substantially the same means, as does the Adkins patent. Nor can we say that by the application of ordinary mechanical skills to the prior art, the same result may be accomplished. The prior art fails to anticipate the Adkins patent, or the utilization made thereof by Lear. Although the basic elements of the patent—bearing cups, and a means of attaching the cups—have heretofore been utilized in cooperation with each other, *Adkins nevertheless makes a significant step forward in the innovation and utilization of the cooperative relationship by which he employs these elements*" (emphasis added).

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<sup>190</sup>A-I, 201-202, Pet. App. 38.



**FIGURE I.**

	A pair of bearing cups and receiving holes	cement or other re- taining means	permissive cooperative relationship of all three elements.	bearing cups aligned at same time	by tilting	permanently fixed bearing cups	achieving co- axial alignment irrespective of the alignment of the receiving holes	an pa re pa en
Adkins' patent	yes	yes	yes	yes	yes	yes	yes	ye
Schwan	yes	yes	no	no	no	yes	no	no
Moody	yes	no	no	no	yes	no	no	un
Grenat	no	yes	no (only 2 elements)	no (bearings are aligned at same time)	yes	no (bearings permanently fixed)	yes	ye
Sperry	no	no	no	no	no (bearing tilts)	no	yes	ye
Herr	no	no	no	no	no (bearing tilts)	no	yes	ye

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achieving co-  
axial alignment  
irrespective of  
the alignment of  
the receiving holes

and achieving  
parallelism ir-  
respective of the  
parallelism of the  
end bells

removable  
bearings  
without re-  
aligning

Number of  
deficiencies

yes

yes

yes

—

no

no

yes

5

no

unknown

yes

6

yes

yes

no

5

yes

yes

no

7

yes

yes

no

7

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anently  
)

**D. The Uncontradicted Evidence Showed Major Differences Between Adkins' Patent and Every Prior Art Patent, With the Result That Adkins' Patent Makes a Significant Step Forward and Satisfies the Constitutional Standard for Invention.**

Before considering the prior art patents,\* it is important to note that in addition to totally ignoring the testimony on which the jury found that Adkins' patent was not anticipated and not obvious, Lear also ignores (a) whether the cooperative relationship in each prior art patent is the same as in Adkins' patent, and (b) whether the prior art patentee accomplished the same result in the same way. Rather, Lear treats this question as if the only issue were whether or not a prior art patent has the same number of elements. Before the "prior art" can properly be said to anticipate, all of the elements must be found in a single prior art patent in the same cooperative relationship where they achieve the same result in the same way, *Bates v. Coe* (1879), 98 U.S. 31, 48; *Ry-Lock Company v. Sears, Roebuck & Co.* (1955, Cir. 9), 227 F. 2d 615, *Lincoln Stores v. Nashua Mfg. Co.* (1946, Cir. 1), 157 F. 2d 154. If this were not the rule, there could never be a patent on a combination of old elements.

To aid this Court, we have set forth in Figure I opposite this page a table showing not only whether the prior art patents have all three elements of Adkins' patent, but whether they also have all three elements in the same cooperative relationship where they accomplish

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\*It is presumed that Lear has abandoned the prior art patents to Carlson and Harding and the two Van Der Heem patents which Lear introduced into evidence and asserted in the California courts were relevant prior art.



the same results and in the same way. That chart reflects that there are at least five deficiencies in every prior art patent.

#### THE SCHWAN PATENT:<sup>200</sup>

Schwan states on the first page that his device is a "radially adjustable bearing support."<sup>201</sup> The stated purpose of the Schwan device is not to align the bearings but to correctly space the air gap between the rotor and the stator in an electric motor.<sup>202</sup> Ferrill testified that the Schwan device permitted radial adjustment *only* and no tilting motion, adjustment,<sup>203</sup> and that in the Schwan device the parallelism of the bearing cups was totally dependent upon the initial parallelism of the end plates,<sup>204</sup> which were accurately machined to be parallel.<sup>205</sup> These conclusions were concurred in by Mr. Lee.<sup>206</sup> As has been seen *supra*, radial adjustment is not a feature of Adkins' invention. Rather, Adkins' patent accomplishes alignment by tilting motion. Thus, as all witnesses testified, parallelism in Schwan is entirely dependent on the parallelism of the end plates, whereas in Adkins' invention parallelism is achieved regardless of the parallelism of the gimbal halves.<sup>207</sup> At the trial Adkins, using Exhibit 67, testified that using the Schwan patent in a gyro would

<sup>200</sup>A-II, 121, Ex. A-31 [R. T. 1147].

<sup>201</sup>A-II, 123, Ex. A-31, 1.

<sup>202</sup>A-II, 123, Ex. A-31, col. 2, lines 30-35.

<sup>203</sup>R. T. 1464.

<sup>204</sup>R. T. 1463.

<sup>205</sup>R. T. 1460.

<sup>206</sup>R. T. 2390-2394.

<sup>207</sup>See fns. 190, 191.

.. SCHWAN  
67

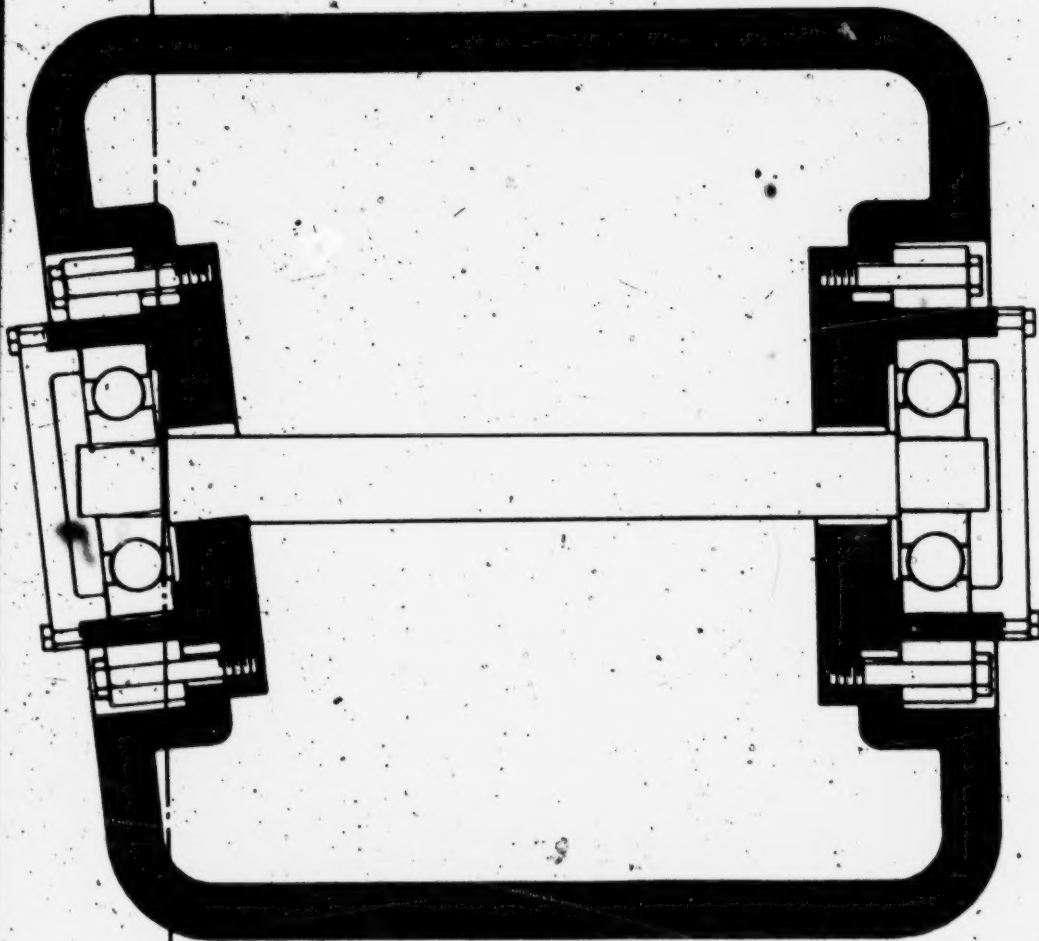


FIGURE II.

result in lack of parallelism and bearing binding if the end bells were not exactly parallel. Exhibit 67 is reproduced opposite in Figure II. It is thus readily apparent that Schwan cannot achieve parallelism irrespective of the parallelism of the gimbal halves, and thus leaves unsolved the very problem Adkins' invention solves successfully.

In Schwan there is also no permissive cooperation between the bearing cup and the receiving hole because the screws force the bearing cup tightly against the end plate.<sup>208</sup> In Adkins' device there is permissive movement between the bearing cup and the receiving hole before the bearing cups are permanently fixed in place in order to achieve parallelism irrespective of the parallelism of the end bells and coaxial alignment irrespective of the coaxial alignment of the receiving holes.<sup>209</sup>

In Schwan the bearing cups are moved radially one at a time to correctly space the air gap between the rotor and the stator,<sup>210</sup> which may or may not, and probably does not, result in coaxial alignment of the bearing cups. In Adkins' device both bearing cups are pre-aligned in precise coaxial relationship and tilted equally before being permanently affixed to the receiving holes.<sup>211</sup>

Thus, although Schwan has three elements, those elements do not have the same cooperative relationship and do not accomplish the same result. Consequently,

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<sup>208</sup>R. T. 2391-2392.

<sup>209</sup>See fns. 196, 197.

<sup>210</sup>R. T. 2391.

<sup>211</sup>R. T. 346-347, 1214, 1447.

Lear's Figures 4-I and 4-II, which depict only the parts separated and the parts assembled, misses the point that they do not have the same cooperative relationship and do not accomplish the same result.

The California Supreme Court fully understood the differences between Schwan's and Adkins' devices and said:<sup>212</sup>

"The Schwan patent discloses a device for aligning the rotor of a motor. It provides for a bearing, a bearing cup, and a means of fixing the cup to the frame of the motor. In these respects it is similar to the Adkins patent. However, Schwan does not provide for angular tilt of the bearing cups, but rather for alignment of the bearings solely by the lateral movement of the cups. Parallelism is achieved in Schwan solely by the built-in parallelism of the surfaces to which the bearing cups are attached, whereas Adkins teaches that parallelism as well as coaxial alignment is to be achieved through the relative angular displacement of the bearing cups. Clearly, Schwan does not provide for the same kind or degree of cooperative relationship between the elements as Adkins, and does not accomplish the same result."

#### THE MOODY PATENT:<sup>213</sup>

Lee testified that in the Moody patent the bearing cups are not prealigned in precise coaxial and parallel alignment, as in Adkins' patent, but that each bearing cup is pressed into the frame, the device is then fully assembled and the bearing cups are then aligned sepa-

<sup>212</sup>Pet. App. 37.

<sup>213</sup>A-II, 142, Ex. A-40 [R. T. 1157].

rately by striking each with a hammer<sup>214</sup> while turning the shaft to feel for bearing bind.<sup>215</sup> As he stated, there is never any way of ascertaining the precise degree of alignment achieved,<sup>216</sup> and, moreover, once aligned in this matter, the bearing cups can be disaligned in the same way.<sup>217</sup> It is also apparent that each is not only aligned independently of the other, but also to a different and unmeasurable degree of alignment. Mr. Ferrill fully concurred with Mr. Lee in this position.<sup>218</sup> Thus, the bearing cups in Moody are not "permanently and immovably" fixed in position as in Adkins' patented device. Also, it is obvious from the Moody patent itself, and conceded by Ferrill,<sup>219</sup> that in Moody there is no cement—the third element in Adkins' invention. In other words, in Moody there is only a *required* cooperation between two elements—the bearing cup and the receiving hole, the required cooperation being the fit between the cup and the hole. In Adkins' patented device, there is an initial permissive<sup>220</sup> cooperation between all three elements, as the fluid cement permits the bearing cups to tilt in the oversized receiving holes<sup>221</sup> and then hardens to fill up the space. Lear seeks to disguise the fact that Moody does not have the third element—retaining means—by drawing a line in Figure 4-I and 4-II to the

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<sup>214</sup>R. T. 2396-2399.

<sup>215</sup>R. T. 2398.

<sup>216</sup>R. T. 2397-2398.

<sup>217</sup>R. T. 2398.

<sup>218</sup>R. T. 1472-1477.

<sup>219</sup>R. T. 1480.

<sup>220</sup>R. T. 2376-2377.

<sup>221</sup>R. T. 2506-2508.



point where the frame meets the bearing cup and calling it a third element. In addition, not one witness, expert or otherwise, stated that a gyro, which requires extreme precision in manufacture to achieve an accurate instrument, could be produced by a method as crude as striking the parts into an unmeasurable degree of alignment with a hammer.

Although Mr. Ferrill did conclude, in response to a leading question, that Moody is a full anticipation of Adkins' patent,<sup>222</sup> his conclusion is not supported by any stated reason, and his recognition of the distinction between the two devices fully destroys his conclusion and results in his testimony falling within the rule of *Diamond Rubber Co. v. Consol. Tire Co.* (1911), 220 U.S. 428, 435, that expert testimony concluding anticipation by application of hindsight can always be produced and is entitled to no weight at all.

The trial court's conclusion<sup>223</sup> in its opinion that to enlarge the receiving holes in Moody and then provide cement as a third element is obvious (the court says "anticipated" but clearly means obvious) and thus to change a required relationship between two elements to a permissive relationship among three elements, usurps the function of both the expert witness on a subject of expertise and the prerogative of the jury. The conclusion of the trial court on the Moody patent is exactly the type of hindsight that the courts have frequently cautioned against, *Monroe Auto Equipment v. Heckethorn Mfg. & Sup. Co.* (1964, Cir. 6), 332 F. 2d 406. As the court in the *Monroe* case said: "Many

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<sup>222</sup>R. T. 1365.

<sup>223</sup>A-I, 78, Pet. App. 98.

things may seem obvious after they have been made, and for this reason courts should guard against slipping into use of hindsight. We must be careful to 'view the prior art without reading into that art the teachings of appellant's invention.'” A similar statement appears in *United States v. Bell Telephone Company* (1896), 167 U.S. 224, where this Court said, at page 261: “. . . wisdom born after the event is the cheapest of all wisdom. Anybody could have discovered America after 1492.”

Again the California Supreme Court recognized the distinctions over Moody, saying:<sup>224</sup>

“In the Moody patent, bearings and bearing cups are fitted into a shaft of a rotor and mounted by means of a press fit into a frame. The press fit is loose enough to permit the bearings to assume the alignment of the shaft when tapped with a hammer. Unlike Adkins, Moody does not provide for a prealignment of the bearings prior to the mounting of the shaft, does not permanently fix the bearing cups in position, and does not allow for removal and replacement of bearings without realignment thereafter.”

#### THE GRENAT PATENT:<sup>225</sup>

Although Mr. Ferrill<sup>226</sup> and Mr. Lee concurred in the viewpoint that Grenat permitted initially achieved parallel and coaxial alignment, both also agreed that a pair of bearing cups was lacking, as Grenat does not

<sup>224</sup>A-I, 201, Pet. App. 37.

<sup>225</sup>A-II, 118, Ex. A-27 [R. T. 1138].

<sup>226</sup>R. T. 1480-1481, 2399-2401.

employ bearing cups at all.<sup>227</sup> Thus, one of the three elements of Adkins' patent is totally missing in Grenat. In addition, because Grenat does not have bearing cups, a pair of bearings cannot be interchangeably mounted without disturbing the alignment initially achieved and requiring realignment of all of the parts. As has been seen, a major stated objective of the Adkins patent is to permit bearings to be removed and replaced without requiring total realignment of all of the parts.<sup>228</sup> As Lear's own witness put it, the interchangeability of bearings without total realignment of the parts "is the key to the whole gyro design."<sup>229</sup>

In other words, Grenat concededly does not have a pair of bearing cups, and thus the bearings cannot be interchanged without total realignment of all of the parts. Again, the trial court's conclusion that "this device anticipates every feature of plaintiff's patent"<sup>230</sup> ignores the uncontradicted testimony that one element—the pair of bearing cups—is not present in Grenat. There is not one word of testimony in the record that to add bearing cups to Grenat and use an accurately tooled mandrel which is removed, rather than a shaft which is not tooled for precise accuracy and which is an integral part of the motor, was obvious to anyone skilled in the art. Thus, Lear's argument on page 58 of its brief on the merits that Grenat uses a mandrel is wrong, and its further argument that if a sleeve bearing were put inside the sleeve bearing, the outer sleeve bearing would be a bearing cup, is again the type

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<sup>227</sup>R. T. 1480-1481, 2399-2401.

<sup>228</sup>A-II, 23, Ex. 10, col. 7, lines 71-73.

<sup>229</sup>R. T. 1733-1734.

<sup>230</sup>A-I, 78, Pet. App. 97. •

of invention by hindsight condemned by the *Monroe Auto* case, *supra*.

Lear's final argument on Grenat (p. 58) is not only ludicrous but also concedes that Grenat is not relevant prior art. Lear states that Grenat anticipates Adkins' apparatus because the bearing cups and the bearing are formed together, rather than being separate pieces as in Adkins' device. In other words, Lear is saying that in Grenat the bearing is also a bearing cup. Grenat does not so state, but calls the element a "bearing."<sup>231</sup>

Thus, Lear's Figures 4-I and 4-II, which identify the bearing as a bearing cup, are flagrant misrepresentations.

As the California Supreme Court correctly and succinctly stated,<sup>232</sup> "... in Grenat, parallel and coaxial alignment is initially achieved, but bearing cups are not utilized, and bearings cannot be interchanged without disturbing the alignment."

#### THE SPERRY PATENT:<sup>233</sup>

Mr. Lee testified<sup>234</sup> that the Sperry patent described a self-aligning structure, referred to by the patentee as "universally mounted,"<sup>235</sup> with the result that part 104, which Sperry, the patentee, and Mr. Lee called an "outer race"<sup>236</sup> and which Mr. Ferrill called a bearing cup (but admitted that the patentee called it an outer race),<sup>237</sup> was not immovably and permanently fixed

<sup>231</sup>See fn. 190.

<sup>232</sup>A-I, 201, Pet. App. 37-38.

<sup>233</sup>A-II, 152, Ex. A-51.

<sup>234</sup>R. T. 2402-2405.

<sup>235</sup>A-II, 156, Ex. A-51, p. 2, col. 1.

<sup>236</sup>R. T. 2404.

<sup>237</sup>R. T. 1483.

but allowed to self-align while the device was operative. Although Ferrill testified that part 6 on Figure 11 *could* be tightened down to eliminate the “self-aligning” features of the bearing structure, he was forced, on cross-examination, to concede that the patent did not so teach,<sup>238</sup> and that to tighten down that part would be contrary to the patentee’s stated object<sup>239</sup> of “universally mounted.” Thus, even assuming, *arguendo*, that the outer race<sup>240</sup> is properly described as a bearing cup (which it is not, as a patentee is his own lexicographer and grammarian, *Thurber Corp. v. Fairchild Motor Corp.* (1959, Cir. 5), 269 F. 2d 841), the Sperry bearing cups are not tilted into precise coaxial and parallel alignment or “permanently and immovably” secured in position by cement, but, under the *uncontradicted testimony*, are allowed to remain loose for purposes of self-alignment.

As Mr. Lee said on cross-examination,<sup>241</sup> to assume that the patentee means a bearing cup when he says an outer race, and further assume that the device is tightened to permanently fix the bearings when the patentee states they are universally mounted, are both contrary to the patentee’s teachings<sup>242</sup> and assumptions which he could not make.<sup>243</sup> It is obvious even to the nonexpert that a self-aligning assembly which contemplates a freemoving part is completely foreign to the teachings of “permanently and immovably” fixed bearing cups which are prealigned in precise coaxial and

<sup>238</sup>R. T. 1491.

<sup>239</sup>R. T. 1488.

<sup>240</sup>A-II, 154, Ex. A-51, fig. 12, No. 104.

<sup>241</sup>R. T. 2420-2424.

<sup>242</sup>R. T. 2422.

<sup>243</sup>R. T. 2423.



parallel relationship. The difference is basic. This alone distinguishes Sperry, since the result sought, alignment, is accomplished, if it is, in a totally different way. As this Court held in *United States v. Adams* (1966), 383 U.S. 39, "a completely different type" of device is not relevant prior art. Although Lear argues (p. 58) that part 6 could be tightened down to eliminate the self-aligning features of Sperry's device, its own witness, Ferrill,<sup>244</sup> admitted that the patent did not so teach, which Lear also admitted at page 321 of its "Respondent's and Cross-Appellant's Opening Brief," and which is obvious anyway since the patentee's stated object is "universally mounted" bearings.

Thus, Sperry does not have either bearing cups or a retaining means and operates on a completely different principle.

The trial court's treatment of Sperry failed to appreciate even the elementary difference between a constantly self-aligning bearing assembly and a permanently fixed bearing structure. However, the California Supreme Court recognized that Sperry is self-aligning and therefore not relevant prior art by stating:<sup>245</sup> "In Sperry . . . 'a universally mounted bearing' is utilized which constantly adjusts itself to maintain alignment while in operation. It thus does not provide fixed coaxial and parallel alignment."

#### THE HERR PATENT:<sup>246</sup>

The Herr device is an "oscillating electric motor"<sup>247</sup> employing a conically pointed shaft riding in hemis-

<sup>244</sup>See fn. 238.

<sup>245</sup>A-I, 201, Pet. App. 38.

<sup>246</sup>A-II, 148, Ex. A-45 [R. T. 1162].

<sup>247</sup>A-II, 149, Ex. A-45, 1, R. T. 2387.

spherical bearings which ride directly on a conical receiving hole in the frame.<sup>248</sup> This device is also a self-aligning assembly.<sup>249</sup> Both Lee and Ferrill conceded that the Herr device does not have a pair of bearing cups<sup>250</sup>—nor does it have a retaining means<sup>251</sup> and that it is a self-aligning structure.<sup>252</sup>

Thus, in the Herr device, by uncontradicted testimony, two of the three elements called out in Adkins' patent, namely, a pair of bearing cups and the means to retain those cups, are absent, and, in addition, the device, like Sperry, is self-aligning. In final argument to the jury, Lear's counsel conceded the inapplicability of the Herr device as relevant prior art,<sup>253</sup> yet here Lear says Herr "is very similar to Adkins' structure" by again misrepresenting both at page 57 and in Figures 4-I and 4-II that the bearing is a bearing cup. Lear's further statement that Herr affixes "these elements" (which elements it does not say) is not understood, since Lear conceded at pages 181 and 316 of its "Respondent's and Cross-Appellant's Opening Brief" that the parts in Herr "are left to be self-aligning."

In its opinion the trial court, in describing Herr, stated:<sup>254</sup> "[T]he bearings are free to adjust themselves to the axis of rotation precisely in the manner of plaintiff's," thus again completely missing the point that Herr is a self-aligning device. Here also the Cali-

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<sup>248</sup>R. T. 2387-2389.

<sup>249</sup>R. T. 2388.

<sup>250</sup>R. T. 1472.

<sup>251</sup>R. T. 1472.

<sup>252</sup>R. T. 1470.

<sup>253</sup>R. T. 2969.

<sup>254</sup>A-I, 78, Pet. App. 98.

fornia Supreme Court<sup>257</sup> recognized that Herr is not relevant prior art because it is a self-aligning structure which does not provide<sup>258</sup> "fixed coaxial and parallel alignment."

It is significant that in explaining the mechanical operation of all devices in issue, including the prior art patents, the only witnesses called by Lear, even though Lear obviously has qualified engineers and patent attorneys in its employ, were Mr. Carpenter, its chief draftsman,<sup>258</sup> who, Lear's counsel stated in response to an objection, was not an expert,<sup>259</sup> and Mr. Ferrill, a patent lawyer from Philadelphia, who, by his own testimony, had little experience in gyro mechanics<sup>260</sup> and had never before testified as an expert.<sup>261</sup>

Thus, none of the prior art patents, when properly analyzed, as the expert witnesses did at the trial, either anticipates or makes Adkins' patent obvious. It bears repeating that except for Ferrill's bare conclusion that Moody anticipates Adkins' invention, which has already been considered *supra*, not one Lear witness in almost three months of trial concluded that Adkins' device was either obvious or anticipated or that any prior art patent contained all three elements of Adkins' patent in the same cooperative relationship.

Put in the language of *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.* (1950), 340 U.S. 147, exact coaxial and parallel alignment independent

<sup>257</sup>A-I, 201, Pet. App. 38.

<sup>258</sup>R. T. 620.

<sup>259</sup>R. T. 1210.

<sup>260</sup>R. T. 1388.

<sup>261</sup>R. T. 1275.

testimony of five witnesses<sup>272</sup> that *angular tilt* is the motion which accomplishes alignment in the steel gyros. In so doing, Lear again ignores the California Supreme Court's summary of the testimony and relies on the trial court's erroneous factual conclusions for support. Thus, because Lear has covered every single issue relating to infringement, Adkins is required to review herein all of the testimony in order to show that Lear's and the trial court's factual conclusions are wrong and that the jury correctly found that the steel gyros infringe Adkins' patent based on the uncontradicted evidence.

**B. As a Matter of Law, There Is No File Wrapper Estoppel Which in Any Way Limits or Narrows the Scope of the Claims of Adkins' Patent.**

The doctrine of file wrapper estoppel prohibits a patentee in an infringement action from attempting to regain by claim construction what he has voluntarily eliminated from the *same* claim by amendment in order to avoid a rejection by the Patent Office. That doctrine also prohibits a patentee from attempting to regain by claim construction what has been eliminated from *other* claims, *Schriber-Schroth Co. v. Cleveland Trust Co.* (1950), 311 U.S. 211. In both situations the issued claim is ambiguous and the patentee is claiming it covers what he voluntarily eliminated in order to obtain the claim. However, the doctrine of file wrapper estoppel is inapplicable where the patentee cancels claims which he has narrowed to avoid a rejection and replaces them with new and broader claims which do not

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<sup>272</sup>A-I, 70, R. T. 2377-2378, A-I, 70, R. T. 2271-2272, A-I, 64, R. T. 1428, A-I, 64, R. T. 1212, A-I, 56, R. T. 347, A-I, 56, R. T. 358-359, A-I, 57, R. T. 370, A-I, 57, R. T. 375.

have any of the limitations previously inserted to avoid a rejection, and the new and broader claims issue, *Smith v. Snow* (1934), 294 U.S. 1, *Westinghouse Electric & Mfg. Co. v. Condit E. Mfg. Co.* (1911, Cir. 2), 194 Fed. 427, *Joints, Inc. v. Garret* (1952, D.C., S.D., Cal.), 102 F. Supp. 760.

In this case original claim 9, filed on February 15, 1954, "was an apparatus claim"<sup>273</sup> claiming a "structure" which did not impose any shape limitations on the bearing cups or receiving holes. Amendment A, filed on March 9, 1955, amended claim 9 but also did not impose any shape limitations.<sup>274</sup> Amendment B, filed on September 27, 1957, again amended claim 9 to require the bearing cup to be "convex" and the receiving hole to be "concave."<sup>275</sup> Amendment C, filed on January 21, 1958, did not change claim 9 and added claims 22-26, some of which referred to the receiving member as having "generally circular apertures."<sup>276</sup> Amendment D, filed on December 30, 1958, further amended claim 9 to remove the convex-concave limitation.<sup>277</sup> Amendment E, filed on March 4, 1959, cancelled claim 9 and claims 20-26 and substituted broader apparatus claims 29 to 36,<sup>278</sup> which issued as claims 9-16. Issued claim 9 imposes no shape limitations whatsoever on the bearing cups or the receiving members, but provides only that the bearing cup and its receiving member "generally correspond," which cov-

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<sup>273</sup>R. T. 1286.

<sup>274</sup>A-II, 69, Ex. P, 37.

<sup>275</sup>A-II, 77, Ex. P, 45.

<sup>276</sup>A-II, 81-85, Ex. P, 49-53.

<sup>277</sup>A-II, 92, Ex. P, 60.

<sup>278</sup>A-II, 96, Ex. P, 64.



ers all possible shapes and configurations, including concave, convex, circular holes, flat surfaces, etc. As Mr. Comstock said,<sup>279</sup> the phrase "generally corresponds" in claim 9 is about as broad a term as one can use, and does not envision any configurational limitations. Lee fully concurred.<sup>280</sup> Claim 9 eliminated the convex, concave and circular aperture restrictions from previous claims, and thus the rule of *Smith*, *Westinghouse* and *Garrett*, *supra*, is squarely applicable and results in no file wrapper estoppel as a matter of law.

Even if the convex-concave limitation of Amendment B and the "generally circular aperture" limitation of Amendment C were to be read into claim 9, this would still not prevent claim 9 from covering the steel gyros, which have convex bearing cups which fit into circular apertures in the gimbal.

The California Supreme Court states<sup>281</sup> in its opinion that "claims which have been allowed cannot, under the doctrine of file wrapper estoppel, be held to cover what has previously been eliminated from the patent application in order to avoid a rejection," and went on to hold<sup>282</sup> that "the record does not support" Lear's contention that a file wrapper estoppel exists in the case at bar because the term "generally corresponds" in claim 9 "contemplated all configurations,"<sup>283</sup> including those employed in the steel gyros, and that therefore "the accused apparatus falls within the literal

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<sup>279</sup>R. T. 2368.

<sup>280</sup>R. T. 2385-2386.

<sup>281</sup>A-I, 192-193, Pet. App. 29.

<sup>282</sup>A-I, 197, Pet. App. 33.

<sup>283</sup>A-I, 196, Pet. App. 33.

language of the claim,"<sup>284</sup> citing *Graver Tank & Mfg. Co. v. Linde Air Products Co.* (1950), 339 U.S. 605.

In other words, there is no ambiguity in claim 9 and no interpretation or construction of claim 9 is necessary, as the term "generally corresponds" covers all shapes, including the cylindrical receiving holes and the cylindrical flanged bearing cup used in the steel gyros. Therefore, Adkins is not trying to construe claim 9 to include something which was eliminated and there is no need to examine the rejected, amended or cancelled claims.

Consequently, the California Supreme Court was correct in holding that there is no file wrapper estoppel in this case.

**C. The California Supreme Court Did Not Read the Mandrel or the Rejected Method Claims Into Claim 9 and Applied the Claims and Not the Apparatus to the Steel Gyros.**

In Point V, subdivisions 3 and 4, it was shown that the specifications do not limit claim 9 to any particular configuration of the bearing cups or receiving holes or to contacting parts, but, to the contrary, contemplate all shapes which allow the bearing cups to cooperate and tilt with respect to the receiving holes to accomplish the desired coaxial and parallel alignment. Thus, the California Supreme Court correctly concluded that no limitation can be read into the words in claim 9 that the two surfaces "generally correspond," and therefore claim 9 covers the steel gyros by its literal language.

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<sup>284</sup>A-I, 197, Pet. App. 33.

of the structure and bearings which are removable constitute the novelty which makes the whole exceed the sum of its parts and produces new and useful results. As the California Supreme Court put it, Adkins' patent makes a "significant step forward in the innovation and utilization of the cooperative relationship, by which he employs these elements,"<sup>262</sup> which satisfies the standard for invention under *Graham v. John Deere Co.* (1966), 383 U.S. 1.

**E. Every Presumption Supports the Validity of Adkins' Patent.**

The advent of the jet aircraft, with increased speed capabilities, created an urgent need for a low cost gyro of higher accuracy.<sup>263</sup> It was therefore important for Lear to obsolete its aluminum gyros as soon as possible and before its competition from Bendix, Sperry<sup>264</sup> and other companies, who were constantly experimenting to develop a gyro of greater accuracy which could be produced at lower cost,<sup>265</sup> did so. After six months of constant experimentation, and in mid-1952,<sup>266</sup> Adkins solved the problem by inventing his bearing alignment structure which reduced free drift errors from more than 17° per hour on Lear's most accurate aluminum gyro<sup>267</sup> to less than 2° degrees per hour,<sup>268</sup> and also resulted in a substantial reduction in the cost of manufacture.<sup>269</sup> The importance

<sup>262</sup>A-I, 202, Pet. App. 38.

<sup>263</sup>R. T. 2444, 2141-2142.

<sup>264</sup>R. T. 2141-2142.

<sup>265</sup>R. T. 2141-2142.

<sup>266</sup>R. T. 306.

<sup>267</sup>R. T. 290, 2545-2546.

<sup>268</sup>R. T. 2546.

<sup>269</sup>R. T. 2178-2179, 1784, 2544-2545.

of the solution achieved by Adkins is demonstrated by its use by Schoeppel's group in Grand Rapids in the steel gyros in October of 1953<sup>270</sup> after a year and a month of full-time and unsuccessful experimentation.

It has often been held that strong evidence of invention which clearly rebuts a defense of obviousness is the satisfaction by the invention of a long-felt want in the industry to which the invention pertains, *Good-year Tire & Rubber Co., Inc. v. Ray-O-Vac Co.* (1944), 321 U.S. 275, 279.

Furthermore, Lear's gyro products incorporating Adkins' invention amassed sales in the period of January 1, 1955 to May 31, 1963 which exceeded \$67,000,000.00,<sup>271</sup> and also substantially reduced manufacturing costs by eliminating the need for expensive machinery and skilled workmen. In *National Sponge Cushion Co. v. Rubber Corp. of Cal.* (1961, Cir. 9), 286 F. 2d 731, the court, in considering the question of obviousness, stated that where a device reduces manufacturing costs and enjoys great commercial success, this is also some evidence of actual invention, rather than only the work of a mechanic skilled in the art.

Moreover, Adkins achieved his invention only after he abandoned the conventional approach of improving known self-aligning constructions. In *United Shoe Mach. Corp. v. Industrial Shoe Mach. Corp.* (1964, Cir. 1), 335 F. 2d 577, the court held that where an inventor takes a new approach and is successful, this is also

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<sup>270</sup>R. T. 1763.

<sup>271</sup>Ex. 48 [R. T. 874], Ex. 49 [R. T. 875].

some evidence of an invention which meets the requisite constitutional standard.

It should also not be forgotten that once Lear copied Adkins' invention in the steel gyros, it used his invention to the exclusion of all prior constructions for the entire 7½-year period involved in this suit, which is also potent evidence of invention, *Mott Corporation v. Sunflower Industries, Inc.* (1961, D.C., Kan.), 217 F. Supp. 559, as is the fact that Adkins' invention substantially replaced the prior art then in use, *Minerals Separation, Ltd. v. Hyde* (1916), 242 U.S. 262, 270.

As this Court stated in *Graham v. John Deere Co.* (1966), 383 U.S. 1, these presumptions, or "secondary considerations," although, of course, not controlling, have some value in determining the question of validity.

## VI.

### THE STEEL GYROS INFRINGE CLAIM 9.\*

#### A. Introduction.

Just as the broad question of validity is not a question presented or a "subsidiary question" under Rule 23-1(c), so also, the broad question of infringement is not a question presented or a "subsidiary question" except for the limited issues of whether the California Supreme Court properly applied the doctrine of file wrapper estoppel, properly construed the claims of Adkins' patent to exclude the mandrel and the rejected method claims, and properly applied the doctrine of equivalents, which were the only issues Lear raised in

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\*And also claims 13, 14 and 16, which need not be considered if claim 9 covers the steel gyros.



question 5 of its petition for a writ of certiorari and discussed in Point III, pages 33-37 thereof. Therefore, in conformity with Rule 23-1(c), this Court should limit itself to these issues and not reconsider (a) the factual question of whether the claims cover the accused device, *Coupe v. Royer* (1895), 155 U.S. 566, or (b) the factual question of whether the claims cover the accused device under the doctrine of equivalents, *Graver Tank & Mfg. Co. v. Linde Air Products Co.* (1950), 339 U.S. 605, or (c) the factual questions of the nature of the prior art patents, what results they accomplish and how they do so, *Graham v. John Deere Co.* (1966), 383 U.S. 1. Not only are these factual issues not within the questions presented, but also, the jury decided all of them in Adkins' favor. Therefore, this Court should not, under the Seventh Amendment, retry these factual questions, *Chicago, Burlington etc. Rd. v. Chicago* (1896), 166 U.S. 226, 242-245, unless there is no evidence or inferences therefrom to support the verdict, *Oxnard Cannery v. Bradley* (1952, Cir. 9), 194 F. 2d 655. In this regard, the California Supreme Court found that *all* of the uncontradicted evidence supported the verdict.

Extensive expert testimony was introduced on the issues of what the specifications taught, what the claims covered, how the 2156 gyro and the steel gyros functioned, what results they accomplished and how they did so. Although Lear concedes that this evidence was extensive, it then proceeds to ignore it and asserts that this Court should now determine that *radial* motion alone accomplishes alignment in the steel gyros by looking at one assembly drawing which does not discuss the aligning motion, despite the uncontradicted

Although Lear says (p. 76) that the California Supreme Court used the specifications to expand the scope of claim 9, that court was only saying, when the entire paragraph upon which Lear relies is considered,<sup>285</sup> that the specifications do not limit claim 9 and that claim 9 does not expressly exclude any given configuration.

Lear also accuses the California Supreme Court (p. 70) of stating that the test for infringement is whether the steel gyros infringe the apparatus rather than the claims. Although the court so stated at page 194,<sup>286</sup> it also said at page 192<sup>287</sup> that it must determine whether or not the steel gyros "incorporate Adkins' invention as defined in the *claims* of the patent," and then in fact applied the *claims* to the steel gyros and concluded, at page 196,<sup>288</sup> that "the literal language of claim 9" covers the steel gyros, and at page 199<sup>289</sup> that the steel gyros come "within the *claims* of Adkins' patent." Thus, the single inadvertent use of the word "apparatus" is totally irrelevant, since that court in fact applied the claims to the steel gyros, as did the jury, which was properly instructed on this issue.<sup>290</sup>

Lear next accuses the California Supreme Court of reading the rejected method claims and the mandrel into the issued apparatus claims in determining that the claims cover the steel gyros. In so doing, Lear improperly connects that portion of the court's opinion

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<sup>285</sup>A-I, 196, Pet. App. 32-33.

<sup>286</sup>A-I, 194, Pet. App. 30.

<sup>287</sup>A-I, 192, Pet. App. 28.

<sup>288</sup>A-I, 196, Pet. App. 33.

<sup>289</sup>A-I, 199, Pet. App. 36.

<sup>290</sup>See fn. 90.

where it describes how the structure is achieved, with the court's application of claim 9 to the steel gyros. However, the court was very careful to point out that the mandrel "is used by Adkins only as an assembly tool,"<sup>291</sup> and that the mandrel is not one of the three elements of claim 9 of Adkins' patent.<sup>292</sup> Thus, the California Supreme Court's conclusion<sup>293</sup> that "the record does not support Lear [in that] claim 9 allows for bearing cups and receiving holes of any configuration permitting angular adjustment [and] the accused *apparatus* falls within the literal language of the *claim*, thus determining the issue of coverage," is manifestly correct. On this issue also, the jury was properly instructed that the mandrel is not part of Adkins' invention<sup>294</sup>, and that the issued claims only and not the method claims must be considered.<sup>295</sup> Based on these instructions, the jury properly found that the claims cover the steel gyros.

Thus, neither the jury nor the California Supreme Court committed any error in applying claim 9 to the steel gyros and concluding that the steel gyros infringe claim 9.

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<sup>291</sup>A-I, 172, Pet. App. 9.

<sup>292</sup>A-I, 194, 196-197, Pet. App. 31, 33-34.

<sup>293</sup>A-I, 197, Pet. App. 33.

<sup>294</sup>R. T. 2849, 3143.

<sup>295</sup>R. T. 2840, 2849.

**D. The Uncontradicted Testimony Demonstrated That Only Angular Tilt Accomplishes Coaxial and Parallel Alignment in the Steel Gyros.**

All five witnesses who testified on this issue (Messrs. Lee,<sup>296</sup> Chesnut,<sup>297</sup> Ferrill,<sup>298</sup> Carpenter<sup>299</sup> and Adkins)<sup>300</sup> agreed that only angular tilt accomplishes alignment in the steel gyros. It is significant that on this point Lear's counsel conceded at the trial that the steel gyros permit angular tilt.<sup>301</sup> Although Mr. Ferrill demonstrated how *one* steel gyro bearing cup may be shifted radially in its receiving hole in *one* gimbal half,<sup>302</sup> neither he nor anyone else stated that this movement either achieved alignment or had any effect at all on alignment. The oversized hole in the gimbal frame in the steel gyros is obviously present, as all witnesses testified, not for any radial movement, as Lear alone now states, but so that the cylindrical cup can tilt in the cylindrical receiving hole, as obviously a cylinder will not tilt in a tight fitting cylinder,<sup>303</sup> just as a cone will not tilt in a tight fitting cone.<sup>304</sup>

Since every witness was in agreement that Adkins' patent teaches and claims angular tilt to accomplish alignment (which Lear concedes), and that angular tilt is used to accomplish alignment in the steel gyros,

<sup>296</sup>A-I, 70, R. T. 2377-2378.

<sup>297</sup>A-I, 70, R. T. 2271-2272.

<sup>298</sup>A-I, 64, 1428.

<sup>299</sup>A-I, 64, R. T. 1212.

<sup>300</sup>A-I, 56, R. T. 347, A-I, 56, 358-359, A-I, 57, 370, A-I, 57, 375.

<sup>301</sup>R. T. 928.

<sup>302</sup>R. T. 1315-1316.

<sup>303</sup>R. T. 2377.

<sup>304</sup>R. T. 2358.





# ADKINS PATENT NO. 2,919,586

A. 54

9. AN APPARATUS FOR SUPPORTING BEARINGS IN ALIGNED RELATIONSHIP WHICH COMPRISES

A PAIR OF BEARING-RECEIVING ELEMENTS EACH PROVIDING MEANS TO REMOVABLY SUPPORT A BEARING IN A FIXED RELATIONSHIP WITH SAID ELEMENT,

EACH OF SAID BEARING-RECEIVING ELEMENTS HAVING A MOUNTING SURFACE BY WHICH IT MAY BE SUPPORTED,

MEANS FOR SUPPORTING SAID BEARING-RECEIVING ELEMENTS AT OPPOSED RELATIVELY SPACED POSITIONS,

SAID SUPPORTING MEANS PROVIDING SUPPORTING SURFACES GENERALLY CORRESPONDING TO SAID MOUNTING SURFACES AND PERMITTING SAID ELEMENTS TO BE INITIALLY ADJUSTABLY SHIFTED RELATIVE TO SAID SUPPORTING MEANS INTO ORIENTED POSITIONS WHERE SAID BEARING-SUPPORTING MEANS ARE IN ALIGNMENT WITH EACH OTHER,

AND MEANS TO RETAIN SAID BEARING-RECEIVING ELEMENTS IN SAID ORIENTED POSITIONS TO PERMIT PAIRS OF BEARINGS TO BE INTERCHANGEABLY MOUNTED IN ALIGNED RELATIONSHIP SUPPORTED BY SAID BEARING SUPPORTING MEANS.

the trial court's statement in its opinion,<sup>305</sup> which Lear repeats in its brief, that the bearing cups in the steel gyros are "radially adjusted within the limits of the hole," is wholly lacking in evidentiary support and constitutes an unwarranted invasion of both the function of the expert witnesses and the jury as the sole finder of fact.

**E. The Literal Language of Claim 9 of Adkins Patent Covers All Four Steel Gyros as a Matter of Law.**

Since there is nothing in the specifications which limits claim 9, there is no file wrapper estoppel, and since the aligning motion in Adkins' patent is angular tilt, which is used in the steel gyros to accomplish alignment, it is a simple matter to read claim 9 directly on the steel gyros. It is in fact uncontradicted in the record that the literal language of claim 9 reads directly on all four steel gyros. Chesnut, using Lear's Exhibit A-54<sup>306</sup> (reproduced opposite this page in Figure III), which broke claim 9 into three elements, found each element of claim 9 with each limitation of claim 9 in all four steel gyros *in the same cooperative relationship*.<sup>307</sup> In other words, Mr. Chesnut read claim 9 directly upon the bearing structure in all four steel gyros. Lee, in addition to reading claim 9 directly upon all four steel gyros,<sup>308</sup> gave his opinion as a patent expert that this claim fully and literally covered the steel gyro bearing structures.<sup>309</sup> The only witness produced by Lear on

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<sup>305</sup>A-I, 77, Pet. App. 96.

<sup>306</sup>Ex. A-54.

<sup>307</sup>R. T. 2260-2268.

<sup>308</sup>R. T. 2374-2379.

<sup>309</sup>R. T. 2379.

this subject was Ferrill, a patent attorney, who, by his own admission, was not an expert in gyro mechanics.<sup>810</sup> Ferrill, however, also found all three elements of claim 9 in the four steel gyros, and would have been forced to conclude that its literal language covered that bearing structure<sup>811</sup> but for the "contact," "ball in socket," "universal motion" and shape limitations which he alone manufactured from the specifications and read into the phrase "generally corresponds" in claim 9.<sup>812</sup> As has been seen, these "limitations" are both factually and legally erroneous.

Thus, the California Supreme Court correctly concluded, based on the evidence, that the literal language of claim 9 covers the steel gyros.

**F. Even if Radial Adjustment Is a Desirable Feature Present Only in the Four Steel Gyros and Not in Adkins' Patent, It Does Not Prevent Coverage of the Steel Gyros by Adkins' Patent.**

It is explained in detail, *supra*, that only tilting motion of the bearing cups with respect to the receiving holes achieves coaxial and parallel alignment in the steel gyros. It is also explained, *supra*, that the radial play which is present in the steel gyros is essential only to permit angular tilt, as two cylinders or any two surfaces of the same configuration will not permit angular tilt if they have the same dimensions. It is also demonstrated that the record is devoid of any testimony that radial motion has any function in achieving alignment or is of any advantage at all in the steel gyros.

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<sup>810</sup>R. T. 1388-1391.

<sup>811</sup>R. T. 1409-1411.

<sup>812</sup>R. T. 1430, 1432, 1434-1435, 1437-1439, 1441.

Nevertheless, even if radial play is present only in the steel gyros, because those gyros still have, by uncontradicted testimony, all of the elements of claim 9 in the same cooperative relationship, claim 9 would still cover those gyros.

It has long been the rule that even where the infringer has added such improvements to a patented device as to warrant the issuance of an improvement patent to him, he has not, by that addition, avoided infringement, *Temco Co. v. Apco Co.* (1928), 275 U.S. 320. This Court there said, at page 328: "It is well established that an improver cannot appropriate the basic patent of another, and that the improver without a license is an infringer and may be sued as such." In other words, radial movement in the receiving holes of all four steel gyros, whether it be considered an improvement or a defect or a happenstance, is irrelevant to the issue of coverage. The test to be applied is not whether there is an additional feature, but whether the steel gyros have all three elements of claim 9 in the cooperative relationship called for. On this point the evidence was uncontradicted.

**G. Under the Uncontradicted Evidence, All Four Steel Gyros Are Covered by Adkins' Patent by the Doctrine of Equivalents.**

The doctrine of equivalents provides that if an accused device contains all of the elements called for in the claim of a patent in the same cooperative relationship and performs substantially the same function in substantially the same way to obtain the same result, it is also covered by the claim even if the parts are different in name, form or shape, *Graver Tank & Mfg. Co. v. Linde Air Products Co.* (1950), 339 U.S. 605.

In the case at bar, both Messrs. Ferrill and Chesnut, the only witnesses on this point, testified that Adkins' patent covered the 2156 gyro.<sup>813</sup> As a result, Lear concedes in its brief that claim 9 covers the 2156 gyro (p. 69). Thus, if the four steel gyros are the mechanical equivalents of the 2156 gyro, they are also covered by Adkins' patent by the doctrine of equivalents, even if the cylindrical-cylindrical configuration is not covered by the literal language of claim 9. In this regard, Curriston, Lear's employee, stated<sup>814</sup> that the configuration of the bearing cup made no difference once it was cemented in. As Schoepel, another Lear employee, put it,<sup>815</sup> the principle is identical for the 2156 gyro and the steel gyros, and the configurational differences in the bearing cups and the receiving holes do not make any difference at all in the way the gyros are assembled or in the resulting structure or in the resulting accuracy.<sup>816</sup>

The total insignificance of the shape of the parts is well emphasized by the following evidence. Ferrill testified that the receiving holes in the gimble halves of the steel gyros are not always precisely cylindrical, but because of the hydroforming process might approach the conical.<sup>817</sup> Lear's admissions in answer to requests for admissions Nos. 25, 34 and 35, read into evidence, admitted that the three different configurations of bearing cups employed in the 2156 gyro did not prevent those bearing cups and their receiving holes from being

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<sup>813</sup>R. T. 1453-1455, 682-684, 2254-2260.

<sup>814</sup>A-I, 65, R. T. 1783.

<sup>815</sup>A-I, 66-69, R. T. 2173-2177.

<sup>816</sup>R. T. 2172.

<sup>817</sup>R. T. 1418-1419.



"substantial equivalents functionally."<sup>318</sup> Carpenter, another Lear witness, testified that one bearing cup in the 2156 gyro was cylindrical with a "radius edge" which mounted to a conical receiving hole.<sup>319</sup> Thus, the difference between the 2156 gyro, which uses a cylindrical bearing cup in a conical receiving hole, and the steel gyro, which also uses a cylindrical cup in an inaccurately formed cylindrical hole which may approach the conical, is obviously semantic rather than actual.

It is no accident that no witness produced by Lear explained why all three 2156 configurations are equivalents of each other and not also of the steel gyro configurations, when all testimony showed that the 2156 gyro and all four steel gyros were in fact exact equivalents functionally. In this regard, Adkins stated for all five gyros<sup>320</sup> that "in my opinion they are all . . . equivalents . . . they are entire equivalents."

The history of Lear's use of Adkins' invention further disproves any material distinction based on configuration alone. Adkins began experimenting with self-aligning spherical cups in spherical receiving holes in January of 1952,<sup>321</sup> and turned in mid-1952 to cementing spherical bearing cups into conical receiving holes.<sup>322</sup> The Grand Rapids division, under Schoeppel's direction, began experimenting in September of 1952 with self-aligning cylindrical flanged cups in oversized

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<sup>318</sup>R. T. 660-661.

<sup>319</sup>R. T. 641.

<sup>320</sup>R. T. 1708.

<sup>321</sup>R. T. 2456.

<sup>322</sup>Ex. 72 (see fn. 41).

cylindrical holes in the gimbal,<sup>323</sup> and also turned to cementing in these bearing cups in October of 1953.<sup>324</sup> As Mr. Schoepel stated:<sup>325</sup> “[Lear] went to the cemented-in construction in as simple a fashion as possible.” Thus, the configurational differences in the 2156 gyro and the four steel gyros arose from purely accidental historical reasons, rather than as the result of any intended functional difference.

Stated differently, Lear failed to produce one witness or one cogent piece of testimony that the steel gyros are anything but the exact equivalent of the 2156 gyro. Little wonder that the California Supreme Court stated<sup>326</sup> that “the doctrine of equivalents would require that we conclude that Lear utilized Adkins’ invention. Here the steel gyros contain the same elements, although perhaps different in size, form and shape, as in the Adkins patent, and they accomplish substantially the same function in substantially the same way.”

It therefore remains only to show that the California Supreme Court was also correct in holding, again on uncontradicted evidence, that Lear is not building the steel gyros according to the prior art.

#### **H. Lear Is Not Building the Steel Gyros According to the Teachings of the Prior Art Patents.**

Since Lear has combined the question of validity with the question of infringement, it is difficult to tell whether it is claiming that it is building the steel gyros

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<sup>323</sup>Ex. L, R. T. 909.

<sup>324</sup>R. T. 1773.

<sup>325</sup>R. T. 2154.

<sup>326</sup>A-I, 199, Pet. App. 35.

according to the teachings of Schwan or according to the teachings of other prior art patents as well. Consequently, after stating the correct rules of law, we will consider Schwan first and then the remaining four prior art patents.

Under *Scott Paper Co. v. Marcalus Mfg Co.* (1945), 326 U.S. 249, a licensee may use the prior art only to identify the novel feature in a combination patent. Then, if the licensee is using the prior art combination only, he is not liable, as the licensor's patent cannot cover his device. In attempting to so use the prior art, one prior art patent cannot be combined with another prior art patent unless there is a suggestion in a particular prior art patent that it may be combined with another prior art patent or that combining prior art patents would occur to one skilled in the art, *United States v. Adams* (1966), 383 U.S. 39. In the case at bar there is no suggestion in any prior art patent that it can be combined with another prior art patent to produce Adkins' patented device. There was also no testimony at the trial from any witness that any prior art patent contained a suggestion that it could be combined with another prior art patent. Moreover, there was no testimony from any witness that the combination of any prior art patent with any other prior art patent would have been obvious to one skilled in the gyroscope art. As the court noted in *Landis Mach. Co. v. Parker-Kalon Corp.* (1951, Cir. 2), 190 F. 2d 543, whether it would occur to one skilled in the art to combine two or more prior art references cannot be decided "*in abstractu.*" In addition, the licensee must show that his device has all of the elements of the prior art patent in the same cooperative relationship where

they achieve the same result in the same way. As the prior art patents have been fully considered in Point III, they will only be summarized herein and then compared to the steel gyros.

#### SCHWAN:

In Schwan, the end bells are machined for parallelism. Oversized holes are provided for sliding the bearing cups radially across the surface of the end bells to properly space the air gap between the rotor and the stator. Each bearing cup is adjusted independently of the other. Then, when the air gap is thereby properly spaced, the bearing cups are screwed tightly to the frame. Thus, the bearing cups may or may not be coaxial. Moreover, since the bearing cups are screwed to the frame, the parallelism of the bearing cups is entirely dependent on the parallelism of the end bells. Thus, Schwan cannot achieve parallelism of the bearing cups irrespective of the parallelism of the end bells, and may or may not, and probably does not, achieve coaxial alignment of the bearing cups. In addition, in Schwan there is no permissive cooperation between the bearing cup and the receiving hole because the screws force the bearing cup against the frame.

It has already been seen that the steel gyros do not accomplish alignment by any radial motion. The gimbal halves are not machined for parallelism. The oversized holes are provided in the gimbal halves solely to permit the bearing cups, which are prealigned in precise coaxial and parallel alignment, to tilt so that when cemented in the alignment initially achieved is maintained, irrespective of the lack of parallelism of the gimbal halves and irrespective of the coaxial alignment

of the receiving holes, because of the permissive relationship between the bearing cups and the receiving holes.

As this Court held in *Diamond Rubber Co. v. Consol. Tire Co.* (1911), 220 U.S. 428, Lear's argument that it is using the Schwan device in the steel gyros is fully answered merely by showing that Lear is not machining its gimbals for parallelism and is not using screws and clamping the bearing cups to the frame, but, to the contrary, is using the precise advances of Adkins' patent by tilting the bearing cups and cementing them to the receiving holes in gimbals which are not machined for parallelism. Thus, Lear is building the steel gyros according to the teachings of Adkins' patent, and the structure is covered by the claims of Adkins' patent and not by Schwan.

#### SPERRY:

Sperry does not have a bearing cup. Rather, the bearings, which are placed around the opposite ends of the shaft, are loosely contained in the frame so that when the shaft rotates the bearings move with respect to the frame and self-align. Each bearing, of course, moves differently with respect to the frame when the shaft rotates. Sperry also does not have cement or any other means which affixes the bearings to the frame.

In short, two elements employed in the steel gyros are missing (the bearing cup and the retaining means), and alignment is accomplished in a different way by a different principle. Thus, Lear is not building the steel gyros according to Sperry, but, rather, according to the teachings of Adkins' patent, and the resultant



structure is covered not by Sperry but by the claims of Adkins' patent.

#### GRENAT:

Grenat does not have bearing cups. The bearings are placed on the shaft, which is not machined for either coaxial or parallel accuracy, and are then soldered into the frame. The bearings thus cannot be removed and replaced without repeating the entire alignment procedure. As one of Lear's witnesses stated, the removability of the bearings without having to realign all of the parts is the key to gyro design. Since Lear, in building the steel gyros, is using bearing cups which are prealigned to be parallel and coaxial and are cemented in to permit the bearings to be removed without realigning all of the parts, Lear is building those gyros according to the teachings of Adkins' patent, and the structure is covered not by Grenat but by the claims of Adkins' patent.

#### MOODY:

In Moody the bearing cups are pressed into the receiving holes in the frame. There is no retaining means such as cement, solder, etc. The bearing cups are held by the press fit, which is a required cooperation between two elements and not a permissive cooperation between three elements. After being pressed in, each bearing cup is aligned separately by hitting it with a hammer and rotating the shaft to feel for bearing bind. Thus, although the cups are tilted by this crude operation, they are, firstly, tilted separately and, secondly, not prealigned in precise coaxial and parallel alignment and then maintained in that position. In fact, precise parallel and coaxial alignment is a vir-

tual impossibility. Thus, the number of parts is different, the cooperation is different and the aligning principle is different. In the steel gyros the bearing cups are prealigned in precise coaxial and parallel relationship, permissively aligned with respect to the receiving holes, and permanently secured to the receiving holes by cement. This is what Adkins' patent teaches and what claim 9 covers, and thus the steel gyros are covered by claim 9 of Adkins' patent and not by Moody.

HERR:

Herr does not have bearing cups. The shaft is conically pointed at both ends and rides in concave bearings which have convex outer surfaces which, in turn, ride in the frame ends. The bearings are not fixed to the frame but are free to self-align by rotation of the shaft. Thus, Herr has neither bearing cups nor, for that matter, anything which is affixed. The principle of Herr is the same as Sperry, and for the reasons stated with respect to Sperry, Lear is building the steel gyros not according to the teachings of Herr, which do not cover the steel gyros, but according to the teachings of Adkins' patent, claim 9 of which does cover the steel gyros.

Thus, no prior art patent has all three elements of Adkins' patent in the same cooperative relationship, and the *entire combination*, i.e., the three elements with their permissive cooperation, is the novel feature which Lear is using in the steel gyros. Therefore, the rule of the *Scott Paper* case, *supra*, is inapplicable and the steel gyros infringe Adkins' patent.

VII.

IF, ARGUENDO, THE LICENSE AGREEMENT IS UNENFORCEABLE BY REASON OF ILLEGALITY, OR A FAILURE OF CONSIDERATION OCCURS, THE CASE MUST BE REMANDED FOR A TRIAL ON THE ALTERNATIVE SECOND CAUSE OF ACTION.

If the patent is invalid, and if this constitutes a total failure of consideration excusing Lear's further performance, or if the agreement is unenforceable for illegality, a trial on the alternative second cause of action is required. The alternative second cause of action stated causes of action for misappropriation in breach of confidence, breach of implied-in-fact contract, and unjust enrichment in the event the agreement of September 15, 1955 failed for any reason. The dismissal of this cause of action was affirmed by the California Supreme Court for the reason that Adkins recovered under the agreement pursuant to the first cause of action, and the alternative second cause of action therefore became moot.<sup>327</sup>

Under State law, if an express agreement fails for any reason after the plaintiff has fully performed his part of the bargain and the defendant cannot be held to his part of the bargain, an implied contract arises to prevent unjust enrichment, and the plaintiff may recover the reasonable value of the benefit he has conferred on the defendant either in unjust enrichment, Restatement of Restitution, §§1 and 40, *Estrin v. Superior Court* (1939), 14 Cal. 2d 670, *Zellner v. Wassman* (1920), 184 Cal. 80, *Lazzarevich v. Lazzarevich* (1948), 88 Cal. App. 2d 708, 720, *Philpott v. Superior*

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<sup>327</sup>A-I, 212, Pet. App. 48-49.

*Court* (1934), 1 Cal. 2d 512, *Mahony v. Standard Gas Engine Co.* (1921), 187 Cal. 399, *Richter v. Union Land etc. Co.* (1900), 129 Cal. 667, or for misappropriation in breach of confidence, Restatement of Torts, §757, *Hollywood M. P. Equipment Co. v. Furer* (1940), 16 Cal. 2d 184, *Thompson v. California Brewing Co.* (1957), 150 Cal. App. 2d 469, *Hyde Corporation v. Huffines* (1958), 314 S.W. 2d 763, or upon an implied-in-fact contract, *Desny v. Wilder* (1956), 46 Cal. 2d 715, *Sutton v. Walt Disney Productions* (1953), 118 Cal. App. 2d 598, *Chandler v. Roach* (1957), 156 Cal. App. 2d 435.

Although *Lear* argued in the California courts that all of these causes of action were abolished by this Court's holding in *Sears, Roebuck & Co. v. Stiffel Co.* (1964), 376 U.S. 225, and *Compco Corp. v. Day-Brite Lighting, Inc.* (1964), 376 U.S. 234, *Sears* and *Compco* cannot be so extended. Both *Sears* and *Compco* held only that Federal law has preempted the field once a patent application is filed, and that after invalidation of a United States patent, State law cannot grant a property right in the patented device and protect it from copying by third parties with whom the plaintiff had no dealings on a "passing off" unfair competition theory. The State theory of passing off struck down by both of those cases was based upon a property right afforded to the patentee by State law. Neither of those cases involved either a patent license agreement which fails or theories of unjust enrichment, the submission of an idea in confidence or the submission of an idea under facts creating an implied-in-fact contract which are based on a consensual relationship and not a property right. The decisions following *Sears* and

*Compco* make it clear that this Court did not intend to eliminate any State theory based on a consensual or contractual relationship.

In *Servo Corporation of America v. General Electric Co.* (1964, Cir. 4), 337 F. 2d 716, the Servo corporation sued General Electric for infringement of three patents and also for misappropriation in breach of confidence. In that case the Southern Railroad, which had permitted the Servo Corporation to conduct experimental work on its railroad equipment, had also invited General Electric to see this work in order to develop a competitive source of supply. The trial court invalidated the patents and refused to grant relief for misappropriation. In reversing the judgment, the Fourth Circuit also held the patents invalid but found that General Electric was *in pari delicto* with the Southern Railroad, and that therefore General Electric had learned of Servo Corporation's experimentation in a situation of confidence. The court then applied the theory of *Booth v. Stutz Motor Car Co.* (1932, Cir. 7), 56 F. 2d 962, and Section 757 of the Restatement of Torts and imposed liability for the period after issuance of the patents on the ground that General Electric had misappropriated Servo Corporation's trade secret in breach of confidence. In so holding, the court distinguished *Sears* and *Compco*, stating that those cases applied only to an unfair competition passing off situation and not to a situation where a defendant learns of an idea in a situation of confidence. The court said, at page 724:

"Because of the confidential relationship which was betrayed here by Southern, this case is distinguishable from *Sears, Roebuck & Co. v. Stiffel Co.* (cita-



tion omitted). In that case the action was grounded upon . . . a remedy for copying resulting in confusion. . . . The court went on to hold that an unpatented article being in the public domain may be freely copied as the federal patent law had preempted the field from state action. This case, however, is one of unjust enrichment through breach of a confidential relationship. . . .”

The scope of *Sears and Compco* was also considered in *Winston Research Corp. v. Minnesota Mining & Mfg. Co.* (1965, Cir. 9), 350 F. 2d 134. In that case, the Ninth Circuit affirmed an injunction in favor of Minnesota Mining against a group of its former employees who had formed Winston Research Corp. and had used know-how gained as employees of Minnesota Mining in manufacturing a competing tape recorder. Although the court stated that *Sears* may preclude protection for industrial information developed by an employee in the performance of his duties, as distinguished from information disclosed to the employee by his employer, the court expressly held in the text and in footnote 2 on pages 424 and 425 that *Sears* and *Compco* did not abolish the State cause of action for misappropriation in breach of confidence. The court there said that the State cause of action for misappropriation in breach of confidence remained, since “The protection is merely against breach of faith and reprehensible means of learning another’s secret.”

Lastly, in *Components for Research, Inc. v. Isolation Products, Inc.* (1966), 241 Cal. App. 2d 726, the court held that *Sears* and *Compco* are not to be extended to abolish State causes of action based on an implied consensual relationship between the parties. In that case

plaintiff sued for damages and an injunction to prevent the defendants from using several of plaintiff's trade secrets concerning a manufacturing process which defendants had misappropriated in breach of confidence. A patent was issued on one of the trade secrets misappropriated by defendants but not on the others. The defendants argued that under *Sears and Compco*, State common law causes of action could not prohibit their using the plaintiff's manufacturing procedures even if misappropriated in breach of confidence. In rejecting this argument, the court said, at page 730:

"As to products which are unpatented, defendants contend that state courts cannot invade the patent field by proscribing mere copying (*Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225. . .; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234. . .)

But these cases are readily distinguished from that at bench. The judgment here but affords protection against the use of plaintiff's trade secrets by those to whom they have been disclosed in confidence. Whether the idea was patented or not, plaintiff is entitled to such protection (*Saco-Lowell Shops v. Reynolds*, 141 F. 2d 587, 598), and *Sears and Compco* do not modify this rule (*Servo Corporation of America v. General Electric Co.*, 337 F. 2d 716, 724-725)."

It is thus clear that all authorities which have to date considered the question of the scope of *Sears and Compco* have distinguished between the passing off theory of unfair competition, which works on a property right in the plaintiff, and the consensual theories of misappropriation in breach of confidence, breach of im-

plied-in-fact contract and unjust enrichment, all of which afford protection to an idea not as property but as the subject of an express or implied agreement.

Thus, in *Thompson v. California Brewing Co.* (1957), 150 Cal. App. 2d 469, the court held that although there was no property interest in an abstract idea, the plaintiff could protect that idea against misappropriation by the defendant by using the misappropriation in breach of confidence theory, and expressly approved the Restatement of Torts, §757. Similarly, in *Desny v. Wilder* (1956), 46 Cal. 2d 715, the court held that although "California does not now accord individual property-type protection to abstract ideas," and "even though an idea is not property" (pp. 732-733), ideas may be consideration for a contract and may be the subject matter of a valid and enforceable implied-in-fact contract.

It is therefore clear that the misappropriation in breach of confidence, breach of implied-in-fact contract and unjust enrichment theories of the second cause of action are not affected by either the *Sears* or the *Compco* decisions because they do not afford "property" protection to ideas but protect them on the basis of a consensual arrangement between the parties.

### Conclusion.

It is submitted that the writ of certiorari should be dismissed as improvidently granted, since no substantial Federal question was either preserved in the lower courts or timely presented to this Court in accordance with long-standing procedural rules regarding raising and preserving Federal questions. However, if this Court feels that the importance of any question pre-

sented requires an exception to these rules, then this Court should conclude that there is no patent misuse involved in this case and that the doctrine of licensee estoppel *per se* does not conflict with the anti-trust laws but is essential to uphold the sanctity of contracts freely and fairly entered into and on which inventors have relied, and is vital to effectuate the purpose of the patent clause and the policy of the patent laws. If, however, the doctrine of licensee estoppel is now to be judicially overturned, this Court should hold that the licensee is liable for accrued royalties to the date of final judgment of patent invalidity, and then remand this case to the California Supreme Court for a determination of the issue of validity.

Finally, in the event the license agreement is for any reason unenforceable, either in its entirety or for any period of time, this Court should remand this case to the California courts for a trial on the alternative second cause of action which was dismissed as moot when Adkins recovered judgment on the first and primary cause of action.

Respectfully submitted,

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